

Minutes of a meeting of the **GOVERNANCE AND AUDIT COMMITTEE** held in Meeting Room 1, Council Offices, Priory Road, Spalding, on Thursday, 3 December 2015 at 6.30 pm.

PRESENT

G R Aley (Chairman)
A Harrison (Vice-Chairman)

C J T H Brewis
T A Carter

P C Foyster
M J Pullen

There were no apologies received.

In Attendance: John Cornett (Director, KPMG), Helen Brookes (Manager, KPMG), Lucy Pledge (Audit and Risk Manager, Audit Lincolnshire), Julie Castledene (Principal Auditor, Audit Lincolnshire), the Executive Director Commercialisation, the Interim Chief Accountant, the Housing Landlord Manager, the Finance Business Partner (CPBS), the Business Intelligence Officer, the Democratic Services Officer and Councillor P Coupland.

19. DECLARATION OF INTERESTS

There were none.

20. MINUTES

The minutes of the meeting of the Governance and Audit Committee meeting held on 24 September 2015 were signed by the Chairman as a correct record.

21. HRA MEDIUM TERM FINANCIAL PLAN 2016/17 - 2019/20

The Committee was advised that this year, a zero-based review of Housing would be undertaken, and that the setting of the final budget and rents would be aligned. In order to approve the HRA Business Plan, and the setting of rents, an additional special meeting of the Governance and Audit Committee would be required, and that this would be arranged to be held in January 2016, prior to consideration of these issues by the Cabinet in February 2016. Committee members would be advised once a date for this meeting had been confirmed.

(The Housing Landlord Manager and the Finance Business Partner left the meeting at 18.38 p.m. following discussion of the above item).

Action By

CM

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22. SHDC ANNUAL AUDIT LETTER 2014/15

Consideration was given to the report from KPMG, which provided details of the Annual Audit Letter 2014/15.

The report summarised the key findings from the 2014/15 audit of South Holland District Council. Although the letter was addressed to the members of the Authority, it was also intended to communicate these issues to key external stakeholders, including members of the public.

The report covered the audit of the Authority's 2014/15 financial statements and the 2014/15 value for money conclusion. All the issues within the letter had previously been reported. The detailed findings were contained within the reports listed in Appendix 1.

The report confirmed that an unqualified conclusion had been issued on the Authority's arrangements to secure value for money for 2014/15.

AGREED:

That the report be noted.

23. EXTERNAL AUDIT PROGRESS REPORT AND TECHNICAL UPDATE

Consideration was given to the report from KPMG, which provided details of the external audit progress and technical update, as at November 2015.

The report provided the Governance and Audit Committee with an overview on progress in delivering KPMG's responsibilities as the external auditors. The report also highlighted the main technical issues which were currently having an impact in local government. The articles that were believed to have an impact at the Authority had been flagged and a perspective had been provided on each issue.

The following areas were highlighted:

- Information was detailed within the report of the Audit Committee Institute, Local Government Seminar Series for Autumn 2015. The Committee was advised that the next event was currently being arranged, that this would probably take place at the end of March 2016, and that invitations would be sent in early January 2016. Officers were also welcome to

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- attend.
- 2017/18 would be the last year for the Authority's current external audit contract. From 2018/19, local government bodies would need to appoint their own auditors.
 - The Executive Director Commercialisation advised that as the Authority had been aware of last year's penalty relating to the housing benefit subsidy error, provision had been made for the penalty, the audit had been undertaken, adjustments made and the accounts signed off. The impact to the Authority had been £25,000 less than anticipated. Directors had taken considerable steps to ensure that this situation did not happen again. The IRRV had undertaken an independent review from which an action plan had arisen. The action plan was well supported – there was additional management resource for housing benefit and there was strategic policy support from another housing benefit shared service. Although these initiatives were yet to be fully implemented, the situation was in hand.
 - With regard to the new requirement that transport infrastructure assets owned by local authorities to be included in the accounts from 2016/17, the Committee was advised that CIPFA had issued a tool to assist local authorities in identifying relevant assets. This issue was important as it would have a material impact on the Authority.

AGREED:

That the report be noted.

24. INTERNAL AUDIT UPDATE REPORT

Consideration was given to the report of the Audit & Risk Manager (Audit Lincolnshire), and the Executive Director Commercialisation which provided an update on progress with the Audit Plan between September 2015 and November 2015.

The purpose of the report was to:

- Advise of progress being made with the 2015/16 Audit Plan
- Provide details of the audit work during the period
- Provide details of the current position with agreed management actions in respect of previously issued reports
- Update the committee on any changes to the 2015/16 Audit Plan and any other matters that may be relevant to the Governance and Audit Committee role.

Detailed information in relation to assurance definitions; audits with limited assurance; the internal audit plan and schedule; and the

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CIPFA Better Governance Forum Audit Committee Update 18 were contained within the appendices which were attached to the report.

The Committee noted that at section 1.5 of the report, the Procurement and Project Management follow up was detailed as an item to be deleted from the Plan. Councillors were advised that the auditors would be looking at one area, the Council's relationship with Procurement Lincolnshire, and whether the contract was adequate and provided the necessary procurement support.

With regard to progress on outstanding audit recommendations, it was highlighted that management responses to these were not satisfactory. The Executive Director Commercialisation was to take the lead with Directors in addressing the reasons for agreed management actions remaining outstanding, and the Committee would receive a further update on outstanding audit recommendations at the meeting in March 2016.

AGREED:

- a) That the report be noted; and
- b) That an update on outstanding audit recommendations be provided to the Committee in March 2016.

JK CM

25. MID TERM TREASURY REPORT 2015/16

Consideration was given to the report of the Executive Director Commercialisation which provided an update of the treasury management position of the Council as at 30 September 2015.

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011 was adopted by South Holland District Council on 8 March 2012. The primary requirements of the Code were as follows:

- Creation and maintenance of a Treasury Management Policy Statement which set out the policies and objectives of the Council's treasury management activities;
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives;
- Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy – for the year ahead, a Mid-year Review Report and an Annual Report (stewardship

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- report) covering activities during the previous year.
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
 - Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For South Holland District Council, the delegated body was the Governance and Audit Committee.

In summary, the mid year report had been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covered the following:

- An economic update for the 2015/16 financial year to 30 September 2015;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure (prudential indicators);
- A review of the Council's investment portfolio for 2015/16;
- A review of the Council's borrowing strategy for 2015/16;
- A review of any debt rescheduling undertaken during 2015/16;
- A review of compliance with Treasury and Prudential Limits for 2015/16

There were no key changes to the Treasury or Capital Strategy.

AGREED:

That the report be noted.

**26. TREASURY MANAGEMENT STRATEGY STATEMENT,
MINIMUM REVENUE PROVISION POLICY STATEMENT AND
ANNUAL INVESTMENT STRATEGY 2016/17**

Consideration was given to the report of the Executive Director Commercialisation which requested that the Committee scrutinise the Treasury Management Strategy Statement, Minimum Revenue Provision Policy and Annual Investment Strategy 2016/17, and make any comments and suggestions, for consideration by the Cabinet when it would consider the report at its meeting on 16 February 2016.

Treasury Management was defined as: 'The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks'.

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The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011, adopted by the Council on 8 March 2012, required the Council to set out its Treasury Management Strategy Statement, Minimum Revenue Provision Policy and Annual Investment Strategy for the forthcoming year. These outlined the Council's strategy for borrowing and its policies for managing its investments and for giving priority to the security and liquidity of those investments. The strategy statements for 2016/17 were attached to the report at Appendix A. The strategy statements covered:

- Reporting requirements
- Capital prudential indicators 2015/16 to 2018/19
- The borrowing requirement
- The Minimum Revenue Provision (MRP) policy
- The use of the Council's resources and the investment position
- Prudential and Treasury Indicators
- Treasury limits in force which would limit the treasury risk and activities of the Council
- Prospects for interest rates
- The borrowing strategy
- Policy on borrowing in advance of need
- Debt rescheduling
- The investment policy
- Creditworthiness policy
- Country limits
- Investment strategy

The strategy document presented to the Governance and Audit Committee for scrutiny was currently at draft stage as the future Capital Programme had yet to be finalised and approved by Council. Once this was known, the tables within the strategy document shown at Appendix A would be updated and submitted to Council for approval before the commencement of the 2016/17 financial year.

The Council had recently created a Housing Company (Welland Homes) which could involve the Council taking on additional borrowing and providing a loan to the Housing Company. Once further information became available, it could result in amendments to the draft strategy attached to the covering report.

The Committee was advised that a number of tables within the report would change as indicators changed and that a revised version would be provided to the special meeting to be held in

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January 2016, detailed earlier in these minutes.

AGREED:

- a) That the report be noted; and
- b) That a revised version of the report would be provided to the Committee at its special meeting to be held in January 2016.

CM

27. GOVERNANCE AND AUDIT SELF-ASSESSMENT

Consideration was given to the report of the Interim Chief Accountant. Members noted that the Chartered Institute of Public Finance and Accountancy (CIPFA) advocated that it was good practice for Audit Committees to undertake regular assessments. This enabling members to gain an appreciation of what afforded best practice, to confirm the level of compliance being achieved, and to identify any potential areas for enhancements to be made to arrangements.

CIPFA's Audit Committee Self-Assessment Checklist, which was attached as an appendix within the report, focussed on 6 fundamental areas, and 66 individual aspects of operations. The key areas were as follows:

- Establishment, Operation and Duties;
- Internal Control;
- Financial Reporting and Regulatory Matters;
- Internal Audit;
- External Audit; and
- Administration.

At a workshop session held on 24 November 2015, a Finance and Audit desktop review was carried out and the checklist to assess the Governance and Audit performance against the CIPFA standard (attached at Appendix 1 to the report) was completed. The exercise identified actions that would improve the effectiveness of the Committee. These were highlighted in bold within the appendix. The actions included the continued production of an annual report of the work of the Governance and Audit Committee (the Committee's first report for a number of years was considered at Council on 9 September 2015, following a similar self-assessment last year).

AGREED:

- a) That the report and the completed checklist at Appendix 1 and the actions to be completed be noted;

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- b) That the checklist be reviewed on a rolling quarterly basis by the Committee;
- c) That Members Development Programme requirements be a standard agenda item for 2016/17; and
- d) That informal training, to supplement formal training, take place in the form of short time slots at each meeting.

JK, KT CM

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28. QUARTERLY RISK REPORT

Consideration was given to the Executive Director Strategy and Governance which updated the Committee on the current status of the Council's strategic risks.

The last risk report to the Governance and Audit Committee was in September 2015, and covered the position of strategic risks up to the end of Quarter 1 2015-16. This followed a period where routine performance and risk reporting had been temporarily suspended to allow for the review of performance and risk frameworks and the implementation of a new corporate performance and risk monitoring system, known as Covalent.

The report being considered was the second risk report to be generated using the new system, and contained status updates on strategic risks for Quarter 2, 2015/16. Future quarterly reports would also contain details of high scoring operational risks, which were still in the process of being implemented on the new Covalent system.

Strategic risks had been reviewed and updated with responsible members of the Executive Management Team (EMT). The strategic risk register included seven strategic risks (detailed at Appendix A to the report). These covered the over-arching risks that could affect the strategic direction of the Council, rather than risks linked to business continuity or those that affected discreet service areas. Currently, there were no strategic risks that were rated as high risks, and there were appropriate mitigations in place to ensure that these risks were appropriately managed.

Strategic risks were captured on the Corporate Dashboard, and reviewed by EMT quarterly. In addition, risks were reviewed monthly at the officer-led Performance, Risk and Audit Board, chaired by the Executive Director Strategy and Governance.

Strategic Risks – These typically affected the whole of the organisation and not just one or more parts of it. Strategic risks

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could potentially involve very high stakes and often affected the ability of the organisation to survive, e.g. impact on the ability of the Council to achieve its corporate plan objectives and purpose. Strategic risks were managed at Board (EMT) level.

The Risk Framework was currently under review, alongside the implementation of the new ICT system. As part of this review, the risk matrix had been changed from a 3 x 3 to a 5 x 5 matrix, based on best practice in comparable organisations. This provided a more comprehensive assessment and understanding of risk likelihood and impact. The matrix resulted in a numerical score which combined the impact of the risk occurring with the likelihood of it happening. Risks fell into High, Medium or Low categories, depending on their rating.

The Committee was advised that the wording in some sections of the appendix had not been finalised and that it had been completed prior to the Chancellor's recent autumn statement. A revised version of the appendix would be circulated to members of the Committee.

The Committee considered the report and agreed that the report did seem easier to read than previous versions.

AGREED:

- a) That the report be noted; and
- b) That a revised version of the appendix be circulated to Committee members.

CD, CM

**29. GOVERNANCE AND AUDIT COMMITTEE WORK
PROGRAMME**

Consideration was given to the report of the Executive Manager Governance, which presented the Work Programme of the Governance and Audit Committee, as set out in Appendix A within the report.

AGREED:

That the report be noted.

**30. ANY OTHER ITEMS WHICH THE CHAIRMAN DECIDES ARE
URGENT.**

There were none.

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(The Principal Auditor and the Head of Audit and Risk Management from Audit Lincolnshire left the meeting following discussion of the above item).

31. EXCLUSION OF THE PRESS AND THE PUBLIC

AGREED:

To consider resolving that, under section 100A (4) of the Local Government Act 1972, the public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Paragraph 3 of part 1 of Schedule 12A of the Act.

32. INTERNAL AUDIT SERVICE PROVISION

Consideration was given to the report of the Executive Director Commercialisation which detailed the approach proposed for Internal Audit Services at South Holland District Council from 1 April 2016. A full discussion around the issues was held.

DECISION:

That the recommendations, as detailed within the report be approved.

(The meeting ended at 8.20 pm)

(End of minutes)