

Minutes of a meeting of the **GOVERNANCE AND AUDIT** held in the Meeting Room 1, Council Offices, Priory Road, Spalding, on Thursday, 15 December 2016 at 6.30 pm.

PRESENT

G R Aley (Chairman)
J R Astill (Vice-Chairman)

C J T H Brewis
T A Carter

P C Foyster
A Harrison

M J Pullen

Apologies for absence were received from or on behalf of Helen Brookes (Manager, KPMG).

In Attendance: E Hodds (Internal Audit Consortium Manager, Eastern Internal Audit Services) and J Cornett (Director, KPMG), the Change and Performance Manager, the Business Intelligence Officer and the Democratic Services Officer.

34. DECLARATION OF INTERESTS

There were none.

35. MINUTES

The minutes of the Governance and Audit Committee meeting held on 15 September 2016 were signed by the Chairman as a correct record.

36. SHDC ANNUAL AUDIT LETTER 2015/16

Consideration was given to the report from KPMG which provided details of the Annual Audit Letter 2015/16.

The report summarised the key findings from the 2015/16 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, and would be placed on the Authority's website.

The report covered the audit of the Authority's 2015/16 financial statements and the 2015/16 value for money conclusion. All the issues within the letter had previously been reported. The detailed findings were contained with 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

Action By

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for 2015/16. It also confirmed the external audit fee for the 2015/16 audit at £44,537, in line with the planned fee.

The auditors advised that it was a very positive report, and the Interim Executive Director Commercialisation reiterated that it was not easy to receive such a high level of accreditation. The Committee requested that their pleasure at such a positive report be minuted.

AGREED:

- a) That the report be noted; and
- b) That the Committee's pleasure at such a positive report be noted.

37. 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 2016.

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 of concern were raised by members:

Business Rate Retention

- It was acknowledged that the report had been written at a point in time and issues such as tariffs and top-ups to support areas with lower levels of business activity could not be guaranteed in the future.
- With regard to the Council Cash Crunch mentioned within the report and the Business Rates Retention issued, members were advised that it was anticipated that by 2020, the Authority would no longer be dependent upon grant funding. Opportunities were being looked at as part of the Council's 'Moving Forward' strategy, and these would be reflected in the draft budget which would shortly be finalised prior to its consultation period.
- The Interim Executive Director Commercialisation commented

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that it was important to drive the growth agenda and reduce the non-domestic rate base. Growth needed to be stimulated to grow the economy in order that the Authority could keep more of its business rates.

Senior public sector pensions

Recent changes to pensions taxation had particularly affected the public sector, with fears senior staff may quit as pension allowances bit - this was a challenge raised within the report and members asked if this was on the Authority's Risk Register. The Committee was advised that staff retention was a general risk on the Risk Register however, there was nothing relating to this specific issue. Without knowing people's personal circumstances, it was difficult to identify risk to specific individuals. External Audit commented that individuals themselves may not know if they were close to the threshold and could therefore be unaware themselves of this risk. It was agreed that the Authority would look at this issue as part of its internal processes.

AGREED:

- a) That the report be noted; and
- b) That as part of its internal processes, the Authority identify and liaise with staff who may be affected by recent changes to pensions taxation.

MA, SJ

38. PROGRESS REPORT ON INTERNAL AUDIT ACTIVITY

Consideration was given to the report of the Internal Audit Consortium Manager which examined progress made between 6 September 2016 and 6 December 2016 in relation to the completion of the Annual Internal Audit Plan for 2016/17. It included abbreviated executive summaries in respect of the audit reviews which had been finalised in the course of the period.

The Governance and Audit Committee received updates on progress made against the annual internal audit plan. The report formed part of the overall reporting requirements to assist the Council in discharging its responsibilities in relation to the internal audit activity.

The Public Sector Internal Audit Standards required the Chief Audit Executive (Internal Audit Consortium Manager) to report to the Governance and Audit Committee the performance of internal audit relative to its agreed plan, including any significant risk exposures and control issues. The frequency of reporting was to

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each meeting. To comply with requirements, the report identified:

- Any significant changes to the approved Audit Plan;
- Progress made in delivering the agreed audits for the year;
- Any significant outcomes arising from those audits; and
- Performance Indicator outcomes to date

The Committee was advised that the current position in completing audits to date within the financial year was detailed within Appendix 1 to the report, and that progress to date was in line with expectations. In summary:

- 49.5 days of programmed work had been completed by Eastern Internal Audit Services;
- 25 days of programmed work had been completed by East Lindsey District Council;
- The overall position with the internal audit plan for 2016/17 was that 74.5 days had been delivered to date, equating to 47% of the revised internal audit plan for 2016/17

The Committee was advised of a further change to the Annual Audit Plan, which had been approved on 3 March 2016. The audit of Disaster Recovery was being replaced by an ISO Gap Analysis. It would review current processes to see how best practice could be achieved in a number of areas.

During the period 6 September 2016 to 6 December 2016, the following final reports were issued:

South Holland Centre – The audit concluded with a ‘Substantial’ assurance and two ‘needs attention’ (priority three) recommendations were agreed with management.

Ayscoughfee – The audit concluded with a ‘Reasonable’ assurance, and six recommendations were agreed with management – two ‘important’ (priority two) and four ‘needs attention’ (priority three)

Housing Right to Buy – The audit concluded with a ‘Reasonable’ assurance, and four ‘important’ (priority two) recommendations were agreed with management.

The Committee considered whether shadowing of future audits would be helpful to gain an insight into the processes involved. The Internal Audit Consortium Manager commented that a better way would be for her to provide a training session to the Committee, taking them through the process of an audit. It was agreed that this be undertaken prior to the next meeting of the Committee in February 2017.

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AGREED:

- a) That the report be noted; and
- b) That the Internal Audit Consortium Manager provide a training session to members, explaining the process of an audit, directly prior to the next meeting of the Governance and Audit Committee on 23 February 2017.

EH, CM

39. FOLLOW UP REPORT

Consideration was given to the report of the Internal Audit Consortium Manager which provided members with the position on the progress made by management in implementing agreed Internal Audit recommendations as at 30 November 2016. The report formed part of the overall reporting requirements to assist the Council in discharging the responsibilities in relation to its Internal Audit Service.

The Public Sector Internal Audit Standards required the Chief Audit Executive (Internal Audit Consortium Manager) to establish a process to monitor and follow up management actions to ensure that they had been effectively implemented or that senior management had accepted the risk of not taking action. The frequency of reporting was twice yearly.

The report laid out the process followed, which included the uploading of recommendations to the Council's performance management system (Covalent), and how non responses or recommendations which had been overdue for a long time were dealt with, initially through the Performance, Risk and Audit Board and the Finance Board, and then ultimately through the Executive Management Team.

A summary position as at 30 November 2016 was provided which showed 31% of recommendations completed, and 69% outstanding - (which were at various stages within the process, at Priority 1, 2 or 3).

In relation to historic recommendations, those which were raised by Audit Lincolnshire were reviewed on handover of the contract for internal audit services and 18 were carried forward. Of these, 2 had been closed, 15 were outstanding (2 urgent and 13 important) and 1 was not yet due.

To date in 2016/17, internal audit had raise 41 recommendations, 8 of which had already been implemented by the agreed date, 7 of which were outstanding (2 important, 5 needs attention) and 26

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were not yet due. The 2 important recommendations which were outstanding were raised in the audit reviews of Strategic Housing and Ayscoughfee.

Members commented that that there were two recommendations (HMO Licensing 14/15 and Income 15/16) that had been outstanding for almost a year. The Internal Audit Consortium Manager responded that although the delays were not ideal, a response had been received from the relevant areas of management and the reasons for the delay had been reasonable.

The Internal Audit Consortium Manager stated that where Committee members had any issues regarding outstanding recommendations, that they should contact her in the first instance and she could escalate these concerns with a view to providing members with an answer.

The Committee was advised that this was the first time that the report had been provided and were asked for their comments. Members agreed that they were happy with the layout of the report and commented that it was easy to read.

AGREED:

That the report be noted.

40. REVIEW OF TERMS OF REFERENCE

Consideration was given to the report of the Interim Executive Director Commercialisation which advised of a review of the Terms of Reference of the Governance and Audit Committee, and proposals to incorporate best practice and comments from previous self-assessment exercises.

The report included the following:

- Frequency of meetings (to remain the same, in order to incorporate the early closedown of the account in future years)
- Purpose of the Committee – an amendment to the current definition was proposed, to cover the breadth of the role of the Committee and to reflect the best practice requirements
- Membership of the Committee – Further restrictions on membership were proposed, in line with best practice, to ensure sufficient independence of the Committee
- Changes to the terms of reference – Three specific changes were proposed, and in addition, a slight change to the layout of the terms of reference to make it clear which areas terms referred to – internal audit, external audit, accounts/finance,

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risk management and governance

The Committee considered the report and the follow points were raised:

- The proposed restriction on the number of scrutiny members that could also sit on the Governance and Audit Committee would be very difficult to put into operation at this Authority. Most members that were not on the Cabinet were members of one or both of the scrutiny committees and it would therefore be difficult to put the proposals into place with regard to Governance and Audit Committee membership. In addition, Governance and Audit was a very specific role and it was important to have members on it that had an interest or sufficient knowledge in its work for it to be effective.
- The proposed amendment that the Chairman of the Governance and Audit Committee should not also serve on a scrutiny committee should be changed (it was currently the case that the Committee's Chairman also sat on one of the scrutiny committees).

In order to overcome these issues, the Interim Executive Director Commercialisation advised that the proposals detailed in the report going forward to Council would be amended to take account of the Committee's views, with proposals as follows:

- Restrictions for all members:
 - Cabinet members do not serve on the Governance and Audit Committee
 - The Chairman of the Performance Monitoring Panel and the Chairman of the Policy Development Panel do not also serve on the Governance and Audit Committee
- It is recognised that members who serve on the Governance and Audit Committee, and also serve on one or both of the Scrutiny Panels, need to recognise the respective roles of both Committees

AGREED:

- a) That the report be noted; and
- b) That the proposed recommendations be presented to the Council to include revisions which reflected the views of the Committee with the following changes to be made:

- Restrictions for all members:

EH, SJ

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- Cabinet members do not serve on the Governance and Audit Committee
- The Chairman of the Performance Monitoring Panel and the Chairman of the Policy Development Panel do not also serve on the Governance and Audit Committee
- It is recognised that members who serve on the Governance and Audit Committee, and also serve on one or both of the Scrutiny Panels, need to recognise the respective roles of both Committees

41. MID TERM TREASURY REPORT 2016/17

Consideration was given to the report of the Interim Executive Director Commercialisation which provided an update on the treasury management position of the Council as at 30 September 2016.

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, which meant that the following principles and actions should take place:

- 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 would 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 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; and
- 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.

The mid year report had been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covered

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the following:

- An economic update for the 2016/17 financial year to 30 September 2016;
- 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 2016/17;
- A review of the Council's borrowing strategy for 2016/17;
- A review of any debt rescheduling undertaken during 2016/17;
- A review of compliance with Treasury and Prudential Limits for 2016/17

No risks were highlighted within the report.

AGREED:

That the report be noted.

**42. TREASURY MANAGEMENT STRATEGY STATEMENT,
MINIMUM REVENUE PROVISION POLICY STATEMENT AND
ANNUAL INVESTMENT STRATEGY 2017/18**

Consideration was given to the report of the Interim Executive Director Commercialisation which requested that the Governance and Audit Committee scrutinise the Treasury Management Strategy Statement, Minimum Revenue Provision Policy and Annual Investment Strategy 2017/18, and make any comments and suggestions to be considered by Cabinet and Council when they considered the document as part of the budget report at their meetings in February 2017.

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'.

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 2017/18 were attached to the report at Appendix A. The strategy statements covered:

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- Reporting requirements
- Capital prudential indicators 2016/17 to 2019/20
- The borrowing requirement
- The Minimum Revenue Provision (MRP) policy
- The use of the Council's resources and 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 was yet to be finalised and approved by Council. Once this was known, the tables within the strategy document shown at Appendix A would be finalised and considered by Cabinet prior to submission to Council for approval before the commencement of the 2017/18 financial year.

The Committee was advised no changes were anticipated to the Treasury Management Strategy Statement.

AGREED:

That the report be noted.

43. QUARTERLY RISK REPORT Q2 2016/17

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

The Performance and Change Manager referred members to the strategic risk register that formed Appendix A within the report, which included 14 strategic risks, which was the same as in the previous quarter.

The following risk areas were highlighted:

- One risk was currently reported in the high category, relating

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to the failure of CPBS to deliver core services, which had increased in score since the last quarter. The increase in risk had been made due to the current issues within the Revenues and Benefits Team, which had led to long delays in claim processing and a concern about possible financial penalties should the Housing Benefit LA error rate remain above the threshold. An action plan was being created setting out what was required in order to ensure a good level of service.

- Ten risks currently fell into the medium category. Only one of these risks had increased since the last quarter – the failure to deliver the outcomes of Welland Homes increased from 4 to 6. Options were being presented to the Welland Homes Board to address the increased risk.
- The impact of the Devolution agenda was currently scored on the risk of excess pressure on the Chief Executive's time and, with recent changes within the proposed deal, it was suggested that this risk was no longer relevant and should therefore be removed from the risk register.

The Committee was advised that enhancements to the risk report were being looked at. As well as providing the current position, it was proposed to add a date of the original assessment. Increasing target risks was also being considered, in order to challenge risk appetite and ensure mitigations were travelling in the right directions. The Committee raised the following points to this, and other issues relating to the format of the report:

The information presented was not current to date. Members were advised that the current information was slightly out of date (updated at Quarter 2, September/October) and that the information was a snapshot at a point in time. However, the covering report would reflect any issues that the Committee should be aware of that were not apparent in the risk report. The Current Risk Score map should precede the Original Assessment map within the table for each risk. Members questioned whether risks should be colour co-ordinated – could numbers be used to grade risk instead? Officers advised that the colours used were more of a grouping and that the metrics associated with the scoring were what was important. The colours reflected level of tolerance rather than a project management tool.

AGREED:

- a) That the contents of the report be noted; and
- b) That the issues raised by the Committee in relation to the format of the report be noted.

**44. 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.

The Committee was advised meeting dates for the 2017/18 municipal year were currently being agreed and would be added to the Work Programme in due course.

Prior to the meeting, the Committee had received a presentation on how fraud prevention was being undertaken. It had been agreed that relevant officers would consider how to feed this into future meetings for consideration by the Committee and that this would be added to the Work Programme on agreed dates.

AGREED:

- a) That the report and content of the Work Programme be noted;
and
- b) That Fraud Prevention be considered by the Committee and that this be added to the Work Programme on dates to be agreed.

EH, SJ, CM

(The meeting ended at 7.43 pm)

(End of minutes)