

Minutes of a meeting of the **GOVERNANCE AND AUDIT COMMITTEE** held in Meeting Room 1, Council Offices, Priory Road, Spalding, on Thursday, 22 June 2017 at 6.30 pm.

PRESENT

G R Aley (Chairman)

C J T H Brewis

T A Carter

P C Foyster

Apologies for absence were received from or on behalf of Councillors J R Astill, A Harrison and M D Seymour.

In Attendance: J Cornett (Director, KPMG), H Brookes (Manager, KPMG), E Hodds (Internal Audit Consortium Manager, Eastern Internal Audit Services), S Toach (Principal Auditor, East Lindsey District Council), the Executive Director Commercialisation, the Head of Finance, the Finance Manager (Treasury), the Financial Control Manager, the Business Intelligence Officer (Charlotte Paine), the Business Intelligence Officer (Corey Gooch), the Democratic Services Officer and Councillor P E Coupland.

**1. DECLARATION OF INTERESTS**

During discussion of agenda item 6, specifically around the dispute with the Peele School over disputed costs, Councillor Brewis declared that he had substantial knowledge of this issue. However, this was not a Disclosable Pecuniary Interest, he did not divulge any information, and he remained in the meeting.

**2. MINUTES**

Councillors considered the minutes of the meeting held on 27 March 2017. With reference to attendance, John Cornett (KPMG) advised that he had been at the meeting but that Helen Brookes (KPMG) had not. He also advised that he had presented the External Audit Plan 2016/17 report.

**DECISION:**

That, subject to the amendments detailed above, the minutes be agreed as a correct record and be signed by the Chairman.

**3. QUARTERLY RISK REPORT - QUARTER 4 2016/17**

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

The Business Intelligence Officer referred members to the

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strategic risk register that formed Appendix A within the report, which included 13 strategic risks.

The following risk areas were highlighted:

- There were currently no risks that were rated in the high risk category.
- There were currently ten risks which fell into the medium category. Of these risks, most remained at the same score as the last quarter. One risk, relating to the delivery of outcomes from the approved Welland Homes business plan had decreased from a risk score of 12 to 9. Two further risks had increased their scores compared to the previous quarter. These were risks relating to the failure to maximise trading opportunities and staff recruitment and retention, which had both increased from a risk score of 9 to 12.
- There were 3 risks currently reported in the low category, and these were scored as they were in the previous quarter.

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

- Members requested that in addition to the Strategic Risk Report showing the current quarter score and direction of travel, that an additional column be added showing the score for the previous quarter
- Failure to maximise trading opportunities – had the risk increased as a result of the Council not being able to rent the Priory Road offices out as hoped?
  - The Authority needed to continue to review its commercial assets, and this was therefore supported by the higher risk given to this issue.
- Staff recruitment and retention at all levels within the organisation – this risk had increased. What was the issue?
  - Members were advised that the increase in this risk was specifically related to service review and the need to ensure that the correct people were placed in the correct roles. It was not about difficulties in recruitment. Many authorities were currently facing a similar situation.
- Failure to deliver Local Plan and its Delivery Plan – was there still a risk due to the New Homes Bonus?
  - This risk had emerged following the consultation document on the new homes bonus, relating to authorities that weren't supported by a Local Plan, that had been published last year. However,

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following the recent General Election and the Queens Speech, there was no indication that this was being progressed. In addition, the Authority was very shortly due to submit its Local Plan, resulting in a lower risk level.

- CPBS, Failure to deliver core services – a number of key officers had left or were leaving, and the service was currently struggling to recruit suitable replacements. Should this risk be increased?
  - There had been an improvement in performance within the Revenues and Benefits team which meant that the risk did not need to be increased in relation to that aspect. However, the impact of the loss of personnel within the Finance department would be looked at shortly in the Q1 update.

**AGREED:**

That the contents of the report be noted, and that the comments made by the Committee be taken on board where appropriate.

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(Both Business Intelligence Officers left the meeting following consideration of this item.)

**4. 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 June 2017.

The report provided the Governance and Audit Committee with an overview of progress in delivering KPMG's responsibilities as the external auditors. The report also highlighted the main technical issues which were currently having an impact on 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.

**AGREED:**

That the report be noted.

**5. PROGRESS REPORT ON INTERNAL AUDIT ACTIVITY**

Consideration was given to the report of the Internal Audit Consortium Manager, which examined progress made since 7 December 2016 in relation to the completion of the Annual

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Internal Audit Plan for 2016/17. The Principal Auditor for East Lindsey District Council was in attendance to answer any questions relating to the audit reviews on work undertaken by Compass Point Business Services.

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 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 shown in Appendix 1, with the internal audit plan of work for 2016/17 completed.

During the period covered by the report, Internal Audit Services had issued 5 final reports, 2 assurance reports (Licensing and Business Support (Reasonable Assurance) and Corporate Governance (Reasonable Assurance)); and 3 position statements (Transformation Programme, Leisure and ISO Gap Analysis).

In addition, in quarter 4 of 2016/17, ELDC undertook key internal audit reviews on areas of work undertaken by Compass Point Business Services. These included Income; Housing Rents; Accounts Receivable; Revenues; Benefits; Accountancy Services; Payroll; and Accounts Payable

The Committee considered the report, and the following points were raised:

- Appendix 2 (Assurance Review of Licensing and Business Support) – with regard to taxi licence fees, had the Authority lost money ?
  - The Authority had not lost money however, a review had to be undertaken at regular intervals to ensure the right amount was being charged and that costs

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were covered.

- Appendix 2 (Leisure) – How large was the issue with regard to the dispute with the Peele School over disputed costs?
  - Officers were working on this to ensure that the dispute was resolved. The Authority was owed some money, so there was some risk involved.
- Was any monitoring to be undertaken to establish whether the closure of the cash desk at the Priory Road office had an effect of the level of arrears?
  - A large amount of work had already by done to advertise the closure, and it was not anticipated that arrears would increase. The amount of cash taken at the cash officer had dropped substantially over the last few months, levels of arrears were always monitored, and no difference had been seen. In addition, there were now more places for people to pay.

### **AGREED:**

That the report be noted.

## **6. FOLLOW UP REPORT ON INTERNAL AUDIT RECOMMENDATIONS**

Consideration was given to the report of the Internal Audit Consortium Manager which provided members with the position on progress made by management in implementing agreed Internal Audit recommendations as at 31 March 2017. 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.

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A summary position as at 31 March 2017 was provided which showed 58% of recommendations completed, and 43% outstanding (which were at various stages with the process, at Priority 1, 2 or 3).

In relation to historic recommendations, i.e. those which were raised by Audit Lincolnshire, progress had been made with 11 outstanding (2 urgent and 9 important).

To date in 2016/17, internal audit had raised 48 recommendations, 26 of which had been implemented by management, 6 of which were outstanding (none urgent, 4 important and 2 needing attention) and 16 were not yet due.

The Committee considered the report, and the following points were made:

- One of the historic outstanding internal audit recommendations related to Housing Debts, and within this it was stated that a lettings report was run to show the tenancies that had ended that week. When looking at debts, why was a report run at the end of a tenancy?
  - Officers agreed that current, ongoing tenancies should be looked at rather than those that had ended.
- Car Park Income Coding – Had the report on funding of the adaption of car park machines to card payment been tabled to the Transformation Board meeting in May?
  - Officers advised that this information would be sought and fed back to members.
- Two Corporate Health and Safety items had been given a three month extension. How was this agreed? Was there liaison between managers and auditors? The current revised deadline dates were at the end of next week – how realistic was it that these deadlines would be met?
  - The Committee was advised that the three month extension would have arisen from management comments, and audit would then have considered whether they were happy with the request. There would be liaison during the three months and issues would be considered regularly. Generally, it was not good practice to extend deadlines by more than three months. One of the Committee's roles should be to keep a watching brief on issues that were regularly outstanding over longer periods.
- It was suggested that the Committee needed to consider what

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assurances were provided to ensure that issues were picked up, and were six-monthly updates sufficient?

- The Committee agreed that six-monthly follow up updates were sufficient, but that more information on progress should be provided within the progress reports. Where deadlines were not met, consideration should be given to requesting that relevant managers attend the Governance and Audit Committee.

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### **AGREED:**

- a) That the report be noted;
- b) That comments made by the Committee be noted; and
- c) That additional information on follow up requested by the Committee be provided in the progress reports.

## **7. ANNUAL REPORT AND OPINION 2016/17**

Consideration was given to the report of the Head of Internal Audit which provided an Annual Report and Opinion for 2016/17, drawing upon the outcomes of Internal Audit work performed over the course of the year, and concluded on the Effectiveness of Internal Audit.

The purpose of the Annual Report and Opinion was to meet the requirements set out in the Public Sector Internal Audit Standards (PSIAS), and the Accounts and Audit Regulations 2015, specifically:

- The opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control during 2016/17, together with reasons, if the opinion was unfavourable;
- A summary of the internal audit work carried out from which the opinion was derived, the follow up of management action taken to ensure implementation of agreed action as at financial year end, and any reliance placed upon third party assurances;
- Any issues that were deemed particularly relevant to the Annual Governance Statement; and
- The Annual Review of the Effectiveness of Internal Audit, which included; the level of compliance with the PSIAS and the results of any quality assurance and improvement programme, the outcomes of the performance indicators and the degree of compliance with CIPFA's Statement on the Role of the Head of Internal Audit.

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The overall opinion in relation to the framework of governance, risk management and control at South Holland District Council was reasonable (positive), based on the conclusions formed over the course of the financial year. However, there were areas which needed to be noted, and these were detailed within paragraph 3.5 of the report. In providing the opinion, the Council's risk management framework and supporting processes, the relative materiality of the issues arising from the internal audit work during the year, and management's progress in addressing any control weaknesses identified therefrom had been taken into account. The opinion had been discussed with the Section 151 Officer prior to publication.

With reference to the fraud related policies mentioned within paragraph 3.5 of the report, members were advised that the internal auditors would bring this information forward to the Committee.

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It was agreed that the general picture was good however, a watching brief would need to be kept on some areas.

**AGREED:**

- a) That the contents of the Annual Report and Opinion of the Head of Internal Audit be received and approved;
- b) That it be noted that a reasonable audit opinion had been given in relation to governance, risk management and control for the year ended 31 March 2017;
- c) That the opinions expressed together with significant matters arising from internal audit work and contained within the report should be given due consideration when developing and reviewing the Council's Annual Governance Statement for 2016/17; and
- d) That the conclusions of the Review of the Effectiveness of Internal Audit be noted.

(The Principal Auditor (East Lindsey) left the meeting following consideration of this item).

**8. UN-AUDITED FINANCIAL STATEMENTS 2016/17**

Consideration was given to the report of the Executive Director Commercialisation which presented the unaudited Financial Statements 2016/17 for members' consideration, prior to formal approval.

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The Accounts and Audit regulations 2015 required that the Responsible Financial Officer signed the unaudited statement of accounts no later than 30 June, and that the statement of accounts be considered and approved by a committee of the Council no later than 30 September. From 2017/18, the deadlines would move forward to 31 May and 31 July respectively.

The Financial Statements production process was complete, and attached at Appendix A was the unaudited version of the 2016/17 Financial Statements (which included the Expenditure and Funding Analysis, Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Cash Flow Statement and Balance Sheet as at 31 March 2017). Members were advised that minor presentational adjustments may still be undertaken before the statutory deadline for publishing the accounts (30 June).

The Accounts had been prepared in accordance with the Code of Practice and the Council's accounting policies. There had been some significant presentational changes in the 2016/17 Code of Practice, and these were detailed within the report. In addition to the changes required by the Code, the Council had produced Group Accounts for 2016/17, consolidating the transactions relating to its subsidiary companies, South Holland Homes Community Interest Company and Welland Homes Ltd.

The unaudited Financial Statement contained the draft Annual Governance Statement, which the Committee was asked to approve.

The Committee considered the report, and thanked officers for the thorough explanation of the content provided.

### **AGREED:**

- a) That the unaudited Financial Statements 2016/17 be noted;  
and
- b) That the draft Annual Governance Statement, included within the unaudited Financial Statements 2016/17, be approved.

## **9. ANNUAL TREASURY MANAGEMENT REVIEW 2016/17**

Consideration was given to the report of the Executive Director Commercialisation (S151) which requested that the Committee consider the Annual Treasury Management Review for 2016-17, prior to it being submitted to Council for approval.

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The Council was required, by regulation issued under the Local Government Act 2003, to produce an annual treasury management review of activities, and the actual prudential and treasury indicators for 2016/17. The report met the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

The regulatory environment placed responsibility on members for the review and scrutiny of treasury management policy and activities. The report was therefore important in that respect, as it provided details of the outturn position for treasury activities and highlighted compliance with the Council's policies previously approved by members.

The Council also confirmed that it had complied with the requirement under the Code to give prior scrutiny to all of the above treasury management report by the Governance and Audit Committee. Member training on treasury management issues to support members' scrutiny role was not undertaken during 2016/17. Arrangements would be made for training to be provided during the 2017/18 financial year if required.

The report summarised the following areas:

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- The actual prudential and treasury indicators;
- Overall treasury position identifying how the Council had borrowed in relation to its indebtedness, and the impact on investment balances;
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity

The Committee considered the report, and the following points were made:

- Were regular checks made to ensure that projects earmarked for capital expenditure were still viable?
  - The Authority had a structure capital programme, and it was possible to restructure approved projects within this.
- What was the position with regard to investments held with the Qatar National Bank?
  - Members were provided with an explanation of how

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the ratings were arrived at, and that officers were keeping an eye on the situation.

**AGREED:**

That the report be noted.

**10. 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 and content of the Work Programme be noted.

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

There were none.

(The meeting ended at 8.17 pm)

(End of minutes)