

Minutes of a meeting of the **GOVERNANCE AND AUDIT COMMITTEE** held in the Meeting Room 1, Council Offices, Priory Road, Spalding, on Thursday, 26 July 2018 at 6.30 pm.

PRESENT

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

C J T H Brewis

A Harrison

Apologies for absence were received from or on behalf of Councillors P C Foyster

In Attendance: Executive Director – Commercialisation, Head of CPBS Operations, H Brookes (Manager, KPMG), E Hodds (Head of Internal Audit, Eastern Internal Audit Services), Councillor P E Coupland, F Haywood (Internal Audit Manager, Eastern Internal Audit Services), Environmental Services Manager and Democratic Services Officer

9. DECLARATION OF INTERESTS

There were no declarations of interest.

10. MINUTES

The minutes of the Governance and Audit Committee meeting held on 24 May 2018 were signed by the Chairman as a correct record.

11. QUARTER 1 2018-19 RISK REPORT

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

The committee noted the following:

There was currently one risk in the high risk category. This related to the critical breach of ICT which had remained at the same score as it was in the last quarter. Whilst this risk remained at a high level, there had been positive mitigations that had been put in place over the last quarter, such as the introduction of a dedicated security analyst role within the service, as well as the implementation of business approved ICT maintenance windows which allowed the ICT service to implement necessary security patches and updates.

There were currently thirteen risks which fell into the medium

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category. Of these risks, all remained at the same score as last quarter.

Of the thirteen risks, it was noted that the risk around the impact of the Homelessness Reduction Act remained quite high however, there had been some very promising mitigations and actions undertaken by the service to ensure that it could cope with the level of demand. Such implementations included new specialist case management software, as well as adding new key experienced members of staff onto a fixed term contract. In addition, recent changes in accommodation and offices ensured that all housing staff were working together and building a customer centred focus.

An additional risk was the implementation of GDPR (General Data Protection Regulations), and how this had affected the council. Whilst the risk remained unchanged due to work still ongoing, there had been much progress made in ensuring the council managed its data properly, and in accordance with GDPR (such as the development of new policies and procedures, as well as the preparation and implementation of privacy notices and the Information Assets Register). A formal audit had also been agreed, to commence in December 2018 – when the outcomes of the audit were known, the risk would be re-assessed.

Members stated that all potential risks which were rated red (high impact, high likelihood) for risk score were all potential risks which were felt by Local Authorities nationwide. Therefore it was considered that such risks were unavoidable.

The Chairman asked if, with the risk of cyber security, the authority would do anything to combat this risk. Officers stated that the authority was in a good place to deal with such a cyber risk already, with all recommendations raised by Internal Audit in this regard having been actioned.

AGREED:

That the contents of the report be noted.

12. PROGRESS REPORT ON INTERNAL AUDIT ACTIVITY

Consideration was given to the report of the Head of Internal Audit which examined the progress made between 28 February 2018 and 13 July 2018, in relation to the completion of the Annual Internal Audit Plan for 2017/18.

The Head of Internal Audit introduced the report.

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In terms of budget management there would be no conclusion at this meeting and would it be brought to the committee on a later date.

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The Head of Internal Audit stated that there had been a lot of work undertaken over the last 4 months, which had meant that audit reports were finalised late in the financial year.

Members asked if the risk of confusion caused by the introduction of Universal Credit was being considered. The Head of Internal Audit stated that because the authority was late coming into the Universal Credit system in comparison with other authorities, a lot of the issues that early adopters faced had already been resolved. Furthermore, the Head of CPBS Operations stated that a lot of work had been done to prepare for the adoption of Universal Credit.

It was stated that the Accounts payable report had been finalised in April 2018.

The topic of the CPBS Audits was raised by members. They asked for clarification on why TIAA offered an assurance called a 'reasonable assurance' whereas the CPBS equivalent was called a 'substantial assurance'. Members felt that 'reasonable' and 'substantial' had different meanings, yet both seemed to offer the same level of assurance. The Head of Internal Audit reminded the Committee that this was explained to the Committee in every Progress Report that they received, and that the explanations / definitions behind the assurance are similar, hence the TIAA terminology being used for ease of comparison for Members

Members raised the matter of the limited assurance for Human Resources, asking whether the urgent recommendations would have deadlines applied to them. The Head of CPBS operations answered that deadlines were already in place and were set for September. It was further stated that regular updates would be brought to the Governance and Audit Committee.

AGREED:

That the completion of the internal audit plan of work for 2017/18 be noted.

13. FOLLOW UP REPORT ON INTERNAL AUDIT RECOMMENDATIONS

Consideration was given to the report of the Head of Internal

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Audit for South Holland District Council which provided members with the position on the progress made by management in implementing agreed Internal Audit Recommendations as at 31 March 2018.

The Head of Internal Audit stated that in relation to the audit recommendations raised in 206/17, 80 recommendations were complete, 2 had been superseded and 6 were outstanding.

The Head of Internal Audit further confirmed that in relation to the 90 recommendations raised in 2017/18, 18 were complete, 69 were not yet due and three were outstanding. The Committee's attention was drawn to the 69 recommendations that were not yet due but did still present a risk to the Council

The Chairman, in reference to the outstanding recommendations asked for a summary of how work to resolve these recommendations was progressing. The Head of Internal Audit stated the Council had agreed an action plan and at the time of this meeting was addressing this, but that a close eye should be kept on the outstanding recommendations to ensure they did not get out of hand.

AGREED:

That the report be noted.

14. ANNUAL REPORT AND OPINION 2017/18

Consideration was given to the report of the Head of Internal Audit which provided the members with an Annual Report and Opinion for 2017/18, drawing upon the outcomes of Internal Audit work performed over the course of the year.

The Head of Internal Audit stated that the report provided a summary of the adequacy and effectiveness of the Council's framework of governance, risk management and control.

The Head of Internal Audit summarised their findings, and raised concerns that the Committee needed to be made aware of.

In paragraph 3.4 of the report, it outlined the list of issues for inclusion in the Annual Governance Statement. It was stated by the Head of Internal Audit that it was expected that management would be taking action to address these issues:

Environmental Protection – The urgent recommendation had now been addressed and the action plan had been completed for

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all important recommendations. The Head of Internal Audit therefore concluded that Environmental Protection was no longer a cause for concern.

Section 106 (S106) Arrangements – Previously there had been no oversight over S106 arrangements, however, responsible officers were in the process of being identified and the newly formed Strategic Growth Board provided much needed oversight. In addition, regular reports had started to be presented to the Performance Monitoring Panel. Members felt that this improvement was very welcome. Members asked if the major issue surrounding S106 was that allocated money wasn't being spent in good time. The Head of Internal Audit responded that this was part of the case, but that another major contributor was that there was not a system of overall control of S106.

Asset management – The Head of Internal Audit felt that the Asset Management Strategy needed reviewing and this was being progressed. It was also stated that the day-to day processes needed to be working better, but it was recognised that the Council was looking into solutions to this. Members asked if there was a suggestion for Breckland District Council (BDC) to run South Holland District Council's (SHDC) industrial units. In response it was stated that there was an agreement being looked at to share best practices between BDC and SHDC. One Member stated that industrial units should be run from within the district and that they would vehemently oppose any proposition to alter that.

Revenues, Payroll and HR and Accounts Receivable – The Head of Internal Audit stated that significant issues had been raised in reports and that repetitive issues were found as part of the audit testing. The Head of Internal Audit recommended that the committee keep a close eye on these issues to ensure that they were resolved

Members noted in the report that East Lindsey District Council (ELDC) had experienced delays in completing the Third Party Audit Reports for Quarter 4, the result of which was that not all of the information relevant to the Annual Audit opinion was available in time for discussion. Members asked for an explanation for the delays. The Head of Internal Audit stated that there were reasons for the delay and assured the committee that the causes were being addressed. Resultantly members requested that a response be provided by ELDC to confirm the reasons for the delay and what steps were being taken to address these.

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The Executive Director – Commercialisation felt that audits sharpened focus, and would ensure recommendations were addressed in a timely manner. Members stated that the fact that a limited opinion was reported to the committee was enough justification for requesting more information.

Members asked why cyber security wasn't being audited again, if a limited assurance had been concluded in the past. The Head of Internal Audit stated that all recommendations had been satisfactorily addressed and due to this, a follow up was not needed at the time of this meeting.

One Member asked, for how long the Head of Internal Audit been working as auditor on behalf of SHDC, they responded that this had been since April 2016, following formal approval by Full Council. In response to a query raised by a member, the Head of Internal Audit reassured the Committee that the opinion given was independent, objective and unfettered.

The Head of Internal Audit stated that follow up reports could be sent to all further meetings. Members agreed that this was a good idea and requested that it be actioned.

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AGREED:

- 1) That the Committee receive and approve the contents of the Annual Report and Opinion of the Head of Internal Audit;
- 2) That the Committee note that a Limited Audit opinion had been given in relation to governance, risk management and control for the year ended 31 March 2018;
- 3) That the Committee note 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 2017/18; and
- 4) That the Committee note the conclusions of the Review of the Effectiveness of Internal Audit.

15. ISA 260 REPORT 17/18

Consideration was given to KPMG's report to those charged with governance (ISA260) for 2017/18. It summarised the key findings arising from their audit of South Holland District Council's 2017/18 financial statements and their work to support their 2017/18

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conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Audit Manager (KPMG) summarised their work for the year (pages 86 and 87). The audit was substantially complete. It had been a challenging year for creation of accounts and conclusion of the audit. It was hoped that the conclusions would meet the deadline at the end of July.

Issues were raised around the super user access in the payroll system. It was recommended that a 3rd party assurance report be requested for the following year.

The Auditors stated that the working papers were good and so were the audit trails. Two risks had been raised in the past year, but there were no further issues to raise.

The area of audit focus was on closing issues faster, this work had not raised any further problems.

The Audit Manager (KPMG) said that there was one new recommendation around access controls for payroll and one risk related to financial resilience.

The Chairman asked if there was anything in the report worthy of concern. The Audit Manager (KPMG) stated that they felt there was no detail in the report which they considered concerning.

Members thanked KPMG for a concise and easy to read report.

AGREED:

That the ISA 260 report for 2017/18 be noted.

16. APPROVAL OF ANNUAL GOVERNANCE STATEMENT, FOR INCLUSION WITH THE COUNCIL'S PUBLISHED FINANCIAL STATEMENTS, AND APPROVAL OF THE AUDITED 17/18 FINANCIAL STATEMENTS

Consideration was given to the report of the Executive Director – Commercialisation (S151) which sought approval for the Annual Governance Statement for inclusion with the Council's Published Statements 2017/18.

Officers stated that this was the final stage for approval. An un-

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audited statement had been received in May by the Governance and Audit Committee, the main change being with reference to the points raised by the Head of Internal Audit.

Members asked if it was possible to be penalised for consistent poor performance on capital. The Executive Director - Commercialisation responded that, no, it was not and that due to the administration of capital, the authority's position on capital was better than it appeared to be in reports and this position was being refined and improved upon for future reports.

AGREED:

That the Governance and Audit Committee

- 1) Approve the Financial Statements 2017/18;
- 2) Approve the Annual Governance Statement 2017/18; and
- 3) Approve the Letter of Representation to KPMG

17. ANY OTHER ITEMS WHICH THE CHAIRMAN DECIDES ARE URGENT.

There were none.

18. GOVERNANCE AND AUDIT COMMITTEE WORK PROGRAMME

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

Follow up reports to be produced by the Internal Auditors and brought to all further meetings.

AGREED:

That the report and content of the Work Programme be noted.

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(The meeting ended at 7.36 pm)

(End of minutes)

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