

Minutes of a meeting of the **GOVERNANCE AND AUDIT COMMITTEE** held in Meeting Room 1, Council Offices, Priory Road, Spalding, on Thursday, 18 October 2018 at 6.30 pm.

PRESENT

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

D Ashby

P C Foyster

A Harrison

Apologies for absence were received from or on behalf of Councillors C J T H Brewis and M D Seymour.

In Attendance: E Hodds (Head of Internal Audit), the Executive Director Commercialisation (S151), the Strategic Finance and Compliance Manager, the Executive Manager - People and Public Protection, the Finance Manager Treasury, the Housing Landlord Services Manager, the Property Asset Manager, the Business Support and Performance Manager (CPBS), the Democratic Services Officer and Councillor P E Coupland.

19. DECLARATION OF INTERESTS

There were no declarations of interest.

20. MINUTES

The minutes of the meeting of the Governance and Audit Committee held on 26 July 2018 were signed by the Chairman as a correct record.

21. QUARTER 2 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:

For this quarter, there were no risks that were rated within the high risk category. In the last quarter, the risk relating to the critical breach of ICT security was rated as high and since then, mitigations had taken place to reduce this risk. In the current quarter, there had been no further concerns of alerts relating to cyber-attacks or security breaches and all appropriate mitigation had taken place.

There were currently thirteen risks which fell into the medium

Action By

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category. Of these risks, there the risk around the failure to implement corporate business continuity had been raised into the medium category from the low category. The increase in risk was a result of a re-assessment to what was felt to be a more accurate score, following the implementation of emergency planning work undertaken in conjunction with Breckland Council's Emergency Planning Officer. The work undertaken, as well as training, was expected to be rolled out or completed by the end of 2018 and at this point the risk was expected to reduce further.

There were two risks currently reported in the low category, and the change in this area related to the delivery of the local plan. This risk was previously scored at medium level risk but had since reduced in Quarter 2 due to the Local Plan modifications consultation closing on 28 August. The Council was expecting to receive the examiner's report in October which it was hoped would allow the Plan to be adopted before the end of the calendar year.

Following consideration of the report, the following issues were raised:

- Members asked how the Committee could be assured that identified risks were not risks. Officers responded that all risks were considered by the Risk Board and were rigorously reviewed.
- Members commented that the report made for good reading, with all risks currently scored at medium or low, and that it was pleasing to see levels of risk reducing. Officers responded that it was good news, but that the Authority was not being complacent. Risk was constantly being reviewed and where risk level needed to be raised, this would happen.

AGREED:

That the contents of the report be noted.

22. RISK MANAGEMENT POLICY

Consideration was given to the report of the Executive Director Strategy and Governance which requested that the Committee consider, approve and adopt the Risk Management Policy.

The Policy attached at Appendix A did not make any changes to how the Council was currently approaching risk management, it was simply seeking to formally adopt the current working practices of the Council into the Policy.

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The Policy had previously been considered at a meeting of the Joint Performance Monitoring Panel and Policy Development Panel on 4 October 2018.

AGREED:

That the Risk Management Policy, attached at Appendix A to the report, be approved and adopted.

PA, RB

23. SHDC ANNUAL AUDIT LETTER 2017-18

Consideration was given to the report from KPMG which provided details of the Annual Audit Letter 2017/18. The report was presented by the Executive Director Commercialisation who advised that KPMG was the Authority's outgoing external auditor, and that this would be the last Annual Audit Letter from them.

The audit work was designed to specifically address the following significant risks:

- Management Override of Controls – KPMG's audit methodology incorporated the risk of management override as a default significant risk. No specific addition risks of management override relating to the audit were identified.
- Value of PPE – the Authority had adopted a revaluation model which saw all land and buildings revalued every five years with desktop revaluations in the intervening period.
- Pensions Liabilities – the net pension liability represented a material element of the Authority's balance sheet. There was a risk that the assumptions and methodology used in the actuarial valuation of the Authority's pension obligation were not reasonable which could have a material impact on the net pension liability accounted for in the financial statements.
- Faster Close – the bringing forward of the national year-end timetable represented a risk to the completion of the audit by the 31 July deadline.

KMPG did not identify any evidence of material misstatement as a result of their audit work on these significant risk areas.

The Audit Letter confirmed that KPMG had issued an unqualified opinion on the Authority's financial statements on 31 July 2018. This meant that they believed the financial statements gave a true and fair view of the financial position of the Authority and of its expenditure and income for the year.

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AGREED:

That the report be noted.

24. PROGRESS REPORT ON INTERNAL AUDIT ACTIVITY

Consideration was given to the report of the Head of Internal Audit, which examined the progress made between 1 April 2018 and 1 October 2018 in relation to the completion of the Annual Internal Audit Plan for 2018/19.

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 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 measures.

At the last meeting of the Committee on 26 July 2018, a number of issues had arisen. The Head of Internal Audit advised how these had been addressed:

Delays experienced by East Lindsey District Council (ELDC) in completing the finance audit reports for quarter four – The Head of Internal Audit had worked with ELDC to provide a response on the reasons for delays. Following a review of the information available, it was observed that an exercise to re-define each process step and lead officer responsibility would be of benefit. Upon conclusion of this exercise, a process map had been developed to ensure that procedures were consistently followed between the two internal audit providers – Appendix 3 (Internal Audit Planning Flowchart) and Appendix 4 (Internal Audit Stakeholder Chart – South Holland including CPBS) illustrated how this would work in practice.

The difference between the two providers assurance terminology was discussed by members at the last meeting. Whilst an

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explanation of each set of gradings was provided by the Head of Internal Audit at each Governance and Audit Committee meeting, ELDC had agreed to adopt the EIAS assurance definitions going forward to enhance compatibility.

AGREED:

That the report be noted.

25. FOLLOW UP REPORT ON INTERNAL AUDIT RECOMMENDATIONS

Consideration was given to the report of the Head of Internal Audit which provided members with the position on progress made by management in implementing agreed Internal Audit recommendations as at 30 September 2018.

The Head of Internal Audit advised that the report was very positive:

- In relation to the historic recommendations i.e. those which were raised by Audit Lincolnshire, progress had been made with no recommendations now outstanding.
- In 2016/17, a total of 88 recommendations were raised by both internal audit providers. Of these, 83 had been implemented by management, and five had been superseded by recommendations raised in later reports, as highlighted by the Head of Internal Audit.
- In 2017/18, a total of 85 recommendations had been raised by both internal audit providers. Of those, 60 had been implemented by management, 17 were outstanding (7 Priority 1, 9 Priority 2, and 1 Priority 3), and eight were not yet due. The management responses in relation to the Priority 1 and Priority 2 outstanding recommendations were detailed within Appendix 3 of the report. In addition, 22 advisory points were raised for CPBS audits and whilst these were not formal recommendations to be followed up, it was expected that these would be addressed in due course and progress would be reviewed.

Members were also updated on progress with the limited and no assurance conclusions that were finalised in 2017/18:

- S106 Agreements (Limited Assurance) – all outstanding recommendations had now been addressed. A report on the monitoring of S106 agreements had been considered by the Performance Monitoring Panel. The whole process had been looked at by a group of key officers who were now taking this

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forward. The situation was very encouraging.

- Revenue Services (Limited Assurance) – Four out of five of the recommendations had been completed.
- Payroll (Limited Assurance)– There had been seven recommendations, four were now complete and three were in progress.
- Accounts Receivable (no assurance) – Twelve recommendations had been raised, seven were now complete, with management responses provided for the three that were due, and two recommendations were not yet due for action.

The Head of Audit thanked the Business Support and Performance Manager (CPBS) for his help with the audit recommendations, and ensuring that audit recommendations relating to services provided by CPBS were addressed and now fully recorded on Pentana.

- Asset Management (Limited Assurance). A Priority 1 recommendation had been addressed by management however, the remaining seven recommendations were all now overdue, with management comment provided at Appendix 2 to the report. Some dates had been pushed back, and the Housing Landlord Services Manager and the Property Asset Manager were both in attendance to provide the Committee with a management response:

The Housing Landlord Services Manager commented that there had been some issues with assets, and that a dedicated team had been created to deal with assets as a whole. The team now knew what the issues were – there were issues around compliance, however audit had helped identify these and they were being addressed. Significant progress had been made on the seven outstanding recommendations. There was still some work to be undertaken however, good progress was being made.

The Property Asset Manager stated that progress was being made, with more liaison taking place internally. Industrial unit leases were being looked at to see if an improvement in rents paid to the Authority could be achieved. Consideration also needed to be given to what was required of the business units – originally, they had been built to help start-up businesses, but now the Authority was considering putting on a more commercial footing.

AGREED:

That the report be noted.

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(The Housing Landlord Services Manager, the Property Asset Manager and the Business Support and Performance Manager (CPBS) left the meeting following discussion of this item).

26. GOVERNANCE AND AUDIT COMMITTEE SELF ASSESSMENT

The Committee noted that the Chartered Institute for Public Finance and Accountancy (CIPFA) document on “audit committees – practical guidance for local authorities and police” set out the guidance on the function and operation of audit committees. It represented CIPFA’s view of best practice and incorporated the position statement previously issued. The guidance stated “the purpose of an audit committee is to provide those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes”.

The Section 151 Officer had overarching responsibility for discharging the requirement for sound financial management, and to be truly effective required an audit committee to provide support and challenge.

Good audit committees were characterised by; balanced, objective, independent knowledgeable and properly trained Members, a membership that was supportive of good governance principles, a strong independently minded chair, an unbiased attitude and the ability to challenge when required.

It was therefore good practice for audit committees to complete a regular self-assessment exercise against a checklist, to be satisfied that the Committee is performing effectively.

In addition, the Public Sector Internal Audit Standards also called for the audit committee to assess their remit and effectiveness, in relation to Purpose, Authority and Responsibility, to facilitate the work of the Committee.

The Governance and Audit Committee had regularly carried out the self-assessment exercise in the past and had taken action where necessary to ensure full compliance with best practice.

The updated guidance provided two tools against which the Committee could assess itself, the first (self-assessment of good practice) supported an assessment against recommended best practice to inform and support the Committee. The second assessment tool (evaluating the effectiveness of the audit

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committee) helped Committee Members to consider where it was most effective and where there may be scope to do more. To be effective the Committee should be able to identify evidence of its impact or influence lined to specific improvements.

At its meeting on 12 September 2017, the Committee had reviewed the assessment tools and concluded on action points that were required. The results were attached at Appendix 1 to the report, and members were asked to review and ensure that this was still an accurate reflection.

Members attention was drawn to the following action points agreed as part of last year's review:

- Promoting the principles of good governance and their application to decision making – it would be beneficial to have wider managers at meetings, as appropriate.
 - The Committee responded that managers had been called into meetings when required, and that this had worked well.
- Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks – fraud policies needed updating and taking back to Committee for approval. Training to then be provided to members on the Council's fraud policies.
 - The Committee responded that fraud policies had been considered. With regard to training, the Chairman stated that he had attended a forum which covered risk management and fraud, and that all Committee members had the opportunity to attend training when advised.

With regard to question 18 of the good practice questions – has the Committee obtained feedback on its performance from those interacting with the committee or relying on its work', members questioned how this feedback could be obtained and how this area could be addressed in the future. The Head of Internal Audit advised that it was not unusual for there to be no tangible evidence for this question. By virtue of its Terms of Reference, the Committee was trusted to carry out its work, and it had a lot of decision making powers. If no negative feedback was received, it could be assumed that there were no issues with what it was doing. Other areas of evidence that could be used to satisfy the questions was that the Committee's minutes were approved at full Council as part of the governance process, and that the Authority produced an Annual Report on its work, which members were advised would be used by the Internal Auditor as a suggestion for

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other authorities.

With regard to training, the Chairman commented that he attended other meetings of Governance and Audit at other authorities, and that other members of the Committee were also able to do this. The Head of Internal Audit commented that as District Council elections were due to be taking place in May next year, that any internal Governance and Audit training should be re-visited as part of the training programme following these elections.

AGREED:

- a) That the Committee's self-assessment, against best practice at Appendix 1 to the report, be agreed; and
- b) That Governance and Audit training be considered as part of the training programme following District Council elections in May 2019.

LE, CM

27. MID TERM TREASURY REPORT 2018/19

Consideration was given to the report of the Executive Director Commercialisation (S151) which provided an update of the treasury management position of the Council as at 30 September 2018.

In December 2017, the Chartered Institute of Public Finance and Accountancy (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities would be required to prepare a Capital Strategy which was intended to provide the following:

A high-level overview of how capital expenditure, capital financing and treasury management activity contributed to the provision of services;

An overview of how the associated risk was managed;

The implications for future financial sustainability.

A report setting out the Authority's Capital Strategy would be taken to full Council as part of the budget setting report before 31 March 2019.

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

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- An economic update for the 2018/19 financial year to 30 September 2018;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure, as set out in the capital strategy and prudential indicators;
- A review of the Council's investment portfolio for 2018/19;
- A review of the Council's borrowing strategy for 2018/19;
- A review of any debt rescheduling undertaken during 2018/19;
- A review of compliance with Treasury and Prudential Limits for 2018/19

The following issues were raised:

- Members commented that it was important to manage public perception in relation to the level of monies held by the Authority. Officers agreed and stated that a long term view was important – balances may appear high at any given point but this would not necessarily reflect any spend further down the line.
- Going forward, the Authority would be more likely to take on some debt – this would be taken on at good rates, alongside cash balances. The Authority needed to start considering and planning for this. Debt was an area that members were not used to, and training would be provided.

SH, SK,
CMarshall

AGREED:

That the Committee note the report, the economic update from Link Asset Services at Appendix A, and the treasury activity as detailed in Appendix B, prior to its consideration by Council on 28 November 2018.

28. 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.

AGREED:

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

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

There were none.

(The meeting ended at 7.52 pm)

(End of minutes)