

Minutes of a meeting of the **GOVERNANCE AND AUDIT COMMITTEE** held in Meeting Room 1, Council Offices, Priory Road, Spalding, on Thursday, 17 January 2019 at 4.30 pm.

PRESENT

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

D Ashby

A Harrison

M D Seymour

Apologies for absence were received from or on behalf of Councillors C J T H Brewis and P C Foyster and the Executive Director Commercialisation (S151).

In Attendance: E Hodds (Head of Internal Audit), F Haywood (Internal Audit Manager, Eastern Internal Audit Services), A Riglar (Manager - Government and Public Sector, UK&I Assurance - Ernst & Young), the Strategic Finance and Compliance Manager, the Head of Finance (CPBS), the Place Manager, the Executive Manager Property and Development, the Democratic Services Officer and Councillor P E Coupland.

30. DECLARATION OF INTERESTS

There were no declarations of interest.

31. MINUTES

The minutes of the meeting of the Governance and Audit Committee held on 18 October 2018 were signed by the Chairman as a correct record.

32. EXTERNAL AUDIT - LOCAL GOVERNMENT AUDIT COMMITTEE BRIEFING (QUARTER 4)

Consideration was given to Local Government Audit Committee Briefing (Quarter 4), produced by the Authority's new external auditor, Ernst and Young.

The briefing report covered issues which could have an impact on the organisation, the Local Government sector, and the audits that Ernst and Young undertook. The briefings were produced by the public sector audit specialists within Ernst and Young's national Government and Public Sector team. The briefings brought together not only technical issues relevant to the Local Government sector, but wider matters of potential interest to the Committee and the Authority. The final page of the report suggested key questions that the Audit Committee should consider, and there was also a section providing links for further

Action By

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information on the issues raised within the report.

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

- Members commented that the report was informative, useful, clear and very well presented.
- Members were advised that the report was produced on a quarterly basis and that it would be included within the Committee's future agendas where it fitted into future meeting dates.
- There were no issues of real concern within the report – with regard to the Key Questions detailed at the end of the report, these were areas that were usually considered by the Committee anyway.

AGREED:

That the report be noted.

33. GRANT CLAIMS 2017/18

Consideration was given to the certification of claims and returns annual report 2017/18, provided by the Authority's outgoing external auditor, KPMG.

Public Sector Audit Appointments required their external auditor to prepare an annual report on the claims and returns certified for each audited body. The letter was KPMG's annual report for the certification work it had undertaken for 2017/18. Certification work was undertaken on only one claim or return, the Housing Benefit Subsidy claim. The certified value of the claim was £17 million, and the work was completed and the claim was certified on 12 November 2018.

The certification work on Housing Subsidy Benefit claim included:

- Agreeing standard rates, such as for allowances and benefit incomes, to the DWP Circular communicating the value of each rate for the year;
- Sample testing of benefit claims to confirm that the entitlement had been correctly calculated and was supported by appropriate evidence;
- Undertaking an analytical review of the claim form considering year-on-year variances and key ratios;
- Confirming that the subsidy claim had been prepared using the correct benefits system version; and
- Completing testing in relation to modified schemes payments,

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uncashed cheques and verifying the accurate completion of the claim form.

The certification work identified a number of errors in the original claim. Where the error could be quantified by testing 100% of the population of potentially affected cases the claim could be amended. Where the population was too large for 100% testing to be practical, a qualification letter was required to explain what the auditor had found. The errors that KPMG found and the way they were dealt with were as follows:

A small number of errors were found in the Rent Rebates and Rent Allowance sample testing, which needed to be reported as the population was too large for 100% testing. They related to the following:

- Incorrect processing of pension payments;
- Incorrect calculation of earnings;
- Incorrect processing childcare costs; and
- Incorrect overpayment classification.

Consequently, no recommendations to the Authority had been made to improve its claims completion process. There were no recommendations made last year and there were no further matters to report regarding the certification work.

Members were advised that KPMG would continue to be the auditor for the subsidy.

With regard to the qualifying letter and the bullet points detailed, members asked whether these were errors, or whether they related to procedure. Officers were not able to provide this information but would liaise with the Revenues and Benefits Manager and provided members with an answer in due course. There were no recommendations from KPMG which would indicate that they were one-off errors.

AGREED:

That the certification of claims and returns annual report 2017/18, provided by KPMG be noted.

34. 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 October 2018 and 7 January 2019 in relation to the completion of the Annual Internal Audit Plan for 2018/19.

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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.

The Committee was advised that details of progress made in delivering the agreed audit work, and the outcomes arising from the auditor's work was detailed within the report.

During the period covered by the report, Internal Audit Services had issued four final reports – Food, Health and Safety (Reasonable Assurance); Democratic Services (Reasonable Assurance); Cyber Security (Reasonable Assurance); and Software Licencing (Reasonable Assurance).

Members considering the information and the following issues were raised:

- Concern was raised that, as part of the audit of Democratic Services, there were issues with regard to member expenses and allowances not being published.
 - Officers responded that management had taken on board the areas that needed to be addressed, and had taken them forward positively.
- Members responded that transparency was important and that reasons why these issues had occurred was required.
 - Officers responded that this would be taken back to the department and answers would be fed back to the Committee.
- With regard to cyber security and the requirement for money to buy core network equipment which had reached the end of its life, this was fundamental to how the Authority worked – why had this issue not been raised in previous reports, and

CM

RB

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how were strategic and operational risks defined?

- The auditor advised that this issue had to progress through the risk management process and be reported upwards. The risk register would be presented to the meeting of the Committee in March where members would have the opportunity to ask questions.

AGREED:

That the report be noted.

**35. 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 the progress made by management in implementing agreed Internal Audit recommendations as at 30 November 2018.

In 2017/18, a total of 85 recommendations had been raised by both internal audit providers. Of those, 63 had been implemented by management, 15 were outstanding (7 urgent, 7 important and 1 needing attention). A total of 7 recommendations (4 urgent and 3 important) were not yet due. The management responses in relation to the outstanding urgent and important outstanding recommendations could be seen in Appendix 2 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 that progress would be reviewed.

Members were updated on progress with the limited and no assurance conclusions:

- The internal audit review of Asset Management concluded with a limited assurance, 2 urgent recommendations had been addressed by management however, 5 recommendations including 3 of urgent priority remained overdue.
- The internal audit review of the Revenues Service concluded with a limited assurance and a total of 5 recommendations were raised, 4 of which were now complete and 1 urgent recommendation was now overdue. The deadline had been further extended until 31 January 2019.
- The internal audit review of the Payroll service concluded in a limited assurance and a total of 7 recommendations were raised, 4 of which were now complete, 2 urgent recommendations were not yet due, and a revised deadline for

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the remaining urgent recommendation had been agreed of 31 March 2019.

- The internal audit review of the Accounts Receivable service concluded with no assurance and a total of 10 recommendations were raised, with 5 of these now confirmed as complete. One urgent recommendation was not yet due, and 2 urgent recommendations were now overdue. Two important recommendations were now overdue and further extensions had been agreed.

The Place Manager and the Executive Manager Property and Development provided the following information with regard to Asset Management

- Update on audit recommendations – there were 5 recommendations outstanding, progress was much slower than officers would want however, some progress was being made.
- Asset Management was a new department that had arisen from the Place Review. A team was in place, there were some common skills however the skills around commercial estate were not held by the current team – proposals were being worked on to acquire additional resource to ensure that the audit actions could be undertaken. Members were advised however that it was difficult to find staff with these skills as it was a very challenging market.
- Members were advised that the Executive Manager Property and Development had a lot of experience in property development and estate management.
- The Authority held around 57 units – start ups were good, but growing these on was an issue.
- The Authority needed to look at how it could manage its estate better. The Executive Manager Property and Development and the Place Manager were identifying the skill-sets that were required and where support was needed. A new Asset Management Plan was also required.
- It was necessary to upskill and mentor the team. Work had started in September 2018 and this was beginning to bear fruit however, progress was difficult – it was challenging to identify staff with Estate Management skills.

The Place Manager commented that officers could attend the next meeting of the Committee to provide a stronger update with significant progress on audit recommendations. CM

Members raised the following issues:

- Did the Authority own its own units, and was it getting a good

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return on its assets?

- Officers responded that there was full occupancy and units were well used. The Authority was getting a good return, but it could be better. Consideration needed to be given to what the offer was. It was important to have a commercial landlord in place, to have the correct policies and the correct tenants in the correct units.
- Members commented that it was important for the Authority as a landlord to help businesses to move into larger, more appropriate locations where required.

The Head of Finance provided the following updates with regard to Compass Point Business Services:

- Within Appendix 2, there were 3 recommendations relating to the authorisation matrix. There had been a number of issues including IT problems and officers not using the system as required. Officers were working with managers to resolve this and find the best way forward. Finance was setting up information on managers' behalf. It was hoped that these issues would be resolved by March.
- Review of billing codes – this had been completed for South Holland District Council.
- VAT e-learning modules – this had now been completed.
- Pay.Net – There had been issues with miscellaneous income. There had been discussions with the software company regarding liability for correcting the system and the company was now in the process of providing these corrections.

AGREED:

That the report be noted.

36. TREASURY MANAGEMENT POLICY AND STRATEGIES 2019/20.

Consideration was given to the report of the Executive Director Commercialisation which provided pre-decision scrutiny to the strategy being proposed.

CIPFA defined Treasury Management as: 'The management of the local authority's borrowing, 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 Council was required to set out its Treasury Management Strategy Statement, Minimum Revenue Provision Policy and

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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 Authority's strategy statements for 2019/20 were attached at Appendix B to the report. The strategy statements covered:

- Reporting requirements
- Capital prudential indicators 2019/20 to 2022/23
- The borrowing requirement
- The 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

Members considered the information within the report, which was explained in further detail by the Strategic Finance and Compliance Manager and the Head of Finance (CPBS).

There was some discussion on the issue of placing money with other authorities, and members were reminded that the Finance Manager Treasury had provided some information at the last meeting into how lending to local authorities was sometimes safer than other institutions. It was agreed that further research on lending to other authorities should be undertaken.

SK

AGREED:

That the report be noted.

37. 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.

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AGREED:

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

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

There were none.

(The meeting ended at 6.00 pm)

(End of minutes)