

Minutes of a meeting of the **GOVERNANCE AND AUDIT COMMITTEE** held in the Council Chamber, Council Offices, Priory Road, Spalding, on Thursday, 6 June 2019 at 6.30 pm.

PRESENT

E J Sneath (Chairman)
J L Reynolds (Vice-Chairman)

C J T H Brewis

P A Redgate

S C Walsh

Apologies for absence were received from or on behalf of Councillors A M Newton and M D Seymour

In Attendance: F Haywood (Internal Audit Manager, Eastern Internal Audit Services) and M Hodgson (Ernst & Young), the Shared Executive Director Commercialisation (S151), Strategic Finance and Compliance Manager, Financial Control Manager, Finance Manager Treasury, the Corporate Improvement and Performance Manager and the Democratic Services Officer.

1. DECLARATION OF INTERESTS

Councillor Sneath informed the meeting that in the interests of transparency, she wished it to be recorded that, although she did not hold a financial interest, she was a Director of Welland Homes Ltd.

2. MINUTES

The minutes of the meeting of the Governance and Audit Committee held on 14 March 2019 were signed by the Chairman as a correct record. It was noted that Councillors Brewis and Seymour were the only remaining members from that meeting, and as Councillor Seymour had given his apologies, his agreement of the minutes from the meeting of 14 March 2019 be sought outside of the meeting.

Members also commented on the good work undertaken by the previous Chairman and Vice-Chairman of the Governance and Audit Committee (Councillors G Aley and J Astill respectively) and asked that the Committee's thanks be conveyed to them.

3. QUARTER 4 2018-19 RISK REPORT

Consideration was given to the report of the Executive Director Strategy and Governance which provided an update to the Committee on the progress of the Council's identified strategic

Action By

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risks.

The Committee noted the following:

Although the number of risks had remained static in each category, there had been some positive movement within the categories and that for the third consecutive month, there had been no risks identified as high. Of the 17 strategic risks, 15 were medium and 2 were low.

Of those considered a medium risk, there had been a positive movement for the following:

- The risk relating to the Council's implementation of the GDPR regulations had reduced as a result of the successful completion of the Privacy Notices and development of the Asset Registers. In addition, a project plan to monitor performance had been completed and 'reasonable assurance' had been received following an internal audit;
- There had been a further reduction in the risk relating to staff recruitment and retention – Quarter 4 had continued the low turnover trend seen in Q3 with only 4 staff leaving the Council in the quarter. In addition, staff recruitment continued to improve across all areas of the Council. Retention also continued its positive trend and all posts were being recruited to within the target times set;
- The risk relating to the failure to deliver the local plan had reduced to the lowest risk level as the Local Plan Inspectors' report was received on 29 January, and subject to modifications, was found to be sound. The Local Plan was subsequently adopted at a meeting of the South East Lincolnshire Local Plan Joint Committee on 8 March;
- Another risk which had reduced in impact was of a critical breach of ICT security. The service had assessed the risk based on the current cyber security threats for all local government organisations and PSPSP IT were constantly ensuring that the most current anti-virus and malware software was in place, in addition to ongoing user education and support.

The remaining risks, although reviewed, remained static from Quarter 3. These included – the Council's medium term financial plan, including the uncertainty surrounding the future of the Government's Settlement Funding; the impact of business rate appeals and county council budget reductions; the risk relating to the impact on the Council of the Homelessness Reduction Act; contracts monitoring risk remained the same as the last quarter; the risk around PSPS failure to deliver core services remained

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stable; and the risk surrounding the failure to effectively implement the corporate business continuity plans remained the same.

Members were advised that a new administration team would be reviewing KPIs and carrying out reviews of strategic risks. More information on this would be shared with the Committee at as part of the Q1 2019/20 report.

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

- Staff recruitment and retention – members commented that the low number of leavers was a good news story.
- Impact of business rates appeals – had this been resolved, particularly in relation to the issue around power stations? Officers responded that an update had been received from the valuation office, but there was still no date regarding when the appeal would be held. However, this was no longer a substantial risk as the majority of the amount has been wound down in the accounts, with only the amount relating to the appeal left as a risk.
- Members asked when the business continuity plans would be signed off by the Emergency Planning Board. Officers responded that this information would be fed back to members.

AGREED:

That the report be noted.

4. PROGRESS REPORT ON INTERNAL AUDIT ACTIVITY

Consideration was given to the report of the Head of Internal Audit which examined the progress made between 4 March 2019 and 24 May 2019, in relation to the completion of the internal audit plan of work 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

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frequency of reporting at South Holland was to each meeting. To comply with the above the 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 to date

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 six final reports – Payroll and HR (Reasonable Assurance); Service Desk (Substantial Assurance); Assurance Review of Budget Management (Reasonable Assurance); Housing Needs Allocations – Homelessness and Housing (Reasonable Assurance); Compass Point – Finance Arrangements (Reasonable Assurance); and Communities Enforcement, Community Safety and ASB (Reasonable Assurance).

AGREED:

That the report be noted.

5. 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 31 March 2019.

In 2017/18, a total of 85 recommendations were raised by both internal audit providers. Of those, 75 had been implemented by management, 10 were outstanding (5 urgent and 5 important). It was encouraging to note that 6 high priority recommendations, and 1 important had been completed in this period, representing good progress in closing down historical recommendations. The management responses in relation to the outstanding urgent and important outstanding recommendations could be seen in Appendix 2 of the report.

In 2018/19, a total of 76 recommendations had been raised so far. Of these, 28 had been completed and 4 (3 important and 1 needing attention) were overdue. A total of 44 recommendations were not yet due. The management responses in relation to the

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outstanding important recommendations could be seen in Appendix 3 of the report.

Members were provided with an update on the Procurement and Contract Management audit, which had received a limited assurance. The report had been raised in January 2019 - Nine important recommendations had been raised, 6 of these had now been actioned, with 3 outstanding – these were included within Appendix 3 of the report, with the reasons why they were overdue. In addition, there were 3 need attention recommendations - 1 had hit the deadline, 1 was overdue with a new deadline and 1 was completed).

Members considered the information, and the following issues were raised:

- It was noted that Financial Services had only received a limited assurance. Members were advised that this report was currently in draft, that the progress report would cover points raised, and that work was still ongoing with regard to issues such as staff responsibilities.
- Members asked whether actions due at the end of March were still outstanding. It was noted that a fresh update was required on these points. The Financial Control Manager stated that procurement of the new document management system was still outstanding, but that progress was being made. With regard to progress on actions due in May, these items would be included within the follow up report to the next meeting.
- Members stated that the Committee would be monitoring the deadline dates, and would be challenging occasions where there were repeated extensions.
- Members commented that the report currently showed only the due date and did not reflect if a deadline had been moved. It was requested that in the future, where a deadline was moved, that this be included, as well as how many times it had been moved.

AGREED:

That the report be noted.

6. ANNUAL REPORT AND OPINION 2018-19

Consideration was given to the report of the Head of Internal Audit which provided an Annual Report and Opinion for 2018/19, drawing upon the outcomes of Internal Audit work performed over the course of the year, and concluded on the Effectiveness of Internal Audit.

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In line with the Public Sector Internal Audit Standards (PSIAS), which came into force from 1 April 2013, an annual opinion should be generated which concluded on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control:

- A summary of the work which supported the opinion should be submitted;
- Reliance placed on other assurance providers should be recognised;
- Any qualifications to that opinion, together with the reason for qualification must be provided;
- There should be disclosure of any impairments or restriction to the scope of the opinion;
- There should be a comparison of actual audit work undertaken with planned work;
- The performance of internal audit against its performance measures and targets should be summarised; and
- Any other issues considered relevant to the Annual Governance Statement should be recorded.

The report also contained conclusions on the Review of the Effectiveness of Internal Audit, which included:

- The degree of conformance 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.

The following points were highlighted:

- The opinion itself was positive – last year it had been 'limited' and this year it had improved to 'reasonable'.
- The vast majority of issues raised in the 2017/18 Internal Audit Annual Opinion had been resolved
- Third Party Assurances – As was the case last year, the work on this had not been totally concluded. Improvement was needed and would be sought.

Members considered the information, and the following issues were raised:

- With regard to the ELDC reports, referred to in appendix 2, if there was only limited assurance, why had this not been identified for review? Members were advised that these

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service areas were reviewed annually, and this would be picked up again next year.

- It was noted that the Communications department and the Legal Services department had not been reviewed since 2016. Officers advised that those area that were not high risk would not be reviewed as regularly. If specific risks were to arise in this area, internal audit would be able to carry out an assurance review if requested by management or the Committee.

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 2019;
- c) That it be noted 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 2018/19; and
- d) That the conclusion of the Review of the Effectiveness of Internal Audit be noted.

7. UNAUDITED FINANCIAL STATEMENTS 2018/19 INCLUDING NARRATIVE REPORT AND ANNUAL GOVERNANCE STATEMENT

Consideration was given to the report of the Executive Director Commercialisation (S151) which presented the unaudited Financial Statements 2018/19, including Annual Governance Statement for members' consideration, prior to formal approval by the Executive Director Commercialisation.

The Accounts and Audit regulations 2015 required that the Responsible Financial Officer signed the unaudited Financial Statements no later than 31 May; and the Financial statements be considered and approved by a committee of the Council no later than 31 July.

As part of the governance role, and in line with good practice, the report presented the unaudited financial statements to the Committee, to enable comments and challenge, and to highlight any key areas.

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The Financial Statements production process was complete, and included in Appendix A was the unaudited version of the 2018/19 Financial Statements (this included the Comprehensive Income and Expenditure Statement; Movement in Reserves Statement; Cash Flow Statement and Balance Sheet as at 31 March 2019).

The unaudited Financial Statements included the draft Annual Governance Statement, which the Committee was asked to review. The Annual Governance Statement explained how the Council had complied with the Code of Practice, and also met the requirements of the Accounts and Audit Regulations in relation to completing an annual review of the effectiveness of the Council's system of internal control. The Annual Governance Statement had been updated to reflect various changes, such as areas highlighted in the internal audit annual report and opinion, and a review of significant governance issues

The timescales involved with the approval, inspection and audit of the Council's financial statements for 2018/19 were:

- Executive Director (Commercialisation) signs Statements 31 May 2019
- Accounts available for public inspection from 31 May 2019
- Unaudited Financial Statements to Committee 6 June 2019
- Audit by Ernst and Young to Commence July 2019 (date TBC)
- Financial Statements approved by Committee 25 July 2019
- Auditor's opinion on Statements issued by 31 July 2019

The accounts had been prepared in accordance with the Code of Practice and the Council's accounting policies, which were brought to the Committee in March 2019.

The External Auditor, Ernst & Young, commented that their audit plan had been presented to the last meeting of the Governance and Audit Committee. They had hoped to bring forward their work from the beginning of July however, this had not been possible and the date committed to was confirmed as 1 July 2019, with the Approval of Annual Governance Statement, for inclusion with the Council's published financial statements and approval of the audited 2018/19 financial statements to be brought to 25 July meeting for sign off by the end of July 2019.

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ACTION:

That the unaudited Financial Statements 2018/19, and the draft Annual Governance Statement, included within the unaudited Financial Statements 2018/19 be approved.

8. ANNUAL TREASURY MANAGEMENT REVIEW 2018/19

Consideration was given to the report of the Executive Director Commercialisation (S151) which requested that the Committee consider the Annual Treasury Management Review 2018/19 prior to it being submitted to Council for approval.

The Council was required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2018/19. 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).

During 2018/19, the following reports had been submitted:

- An annual treasury strategy in advance of the year (to Council 8 March 2018);
- A mid year (minimum) treasury update report (to Council on 28 November 2018);
- An annual review following the end of the year, describing the activity compared to the strategy (the report under consideration)

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 confirmed that it had complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Governance and Audit Committee. Member training on treasury management issues was undertaken on 15 March 2018, in order to support the members' scrutiny role.

The Treasury Management function was administered by Public Sector Partnership Services Ltd (previously known as Compass

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Point Business Services) on behalf of the Council.

The report summarised the following:

- Capital activity during the year;
- Impact of the 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;
- Borrowing and investment outturn positions;
- Economy and interest rates.

Members were advised that training on treasury management issues would be provided in the next few months for new members of the Committee

AGREED:

That the report be noted.

9. 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.

AGREED:

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

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

The Chairman stated that the next meeting of the Committee was to start at 4.30pm, and would members wish to consider this as the start time for all future meetings? It was agreed that this should be considered at the next meeting, which would start at 4.30pm, and when all members were present.

Members passed on their best wishes to the Financial Control Manager who was shortly due to start maternity leave.

Members congratulated Councillor Sneath on chairing her first Governance and Audit Committee meeting.

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(The meeting ended at 7.58 p.m.)

(End of minutes)