

Informal notes of a meeting of the **GOVERNANCE AND AUDIT COMMITTEE** held on Thursday, 13 January 2022 at 4.00 pm.

PRESENT

T A Carter (Chairman)

F Biggadike
H J W Bingham

C J T H Brewis
M Hasan

M D Seymour
S C Walsh

In Attendance: F Haywood (Internal Audit Manager, Eastern Internal Audit Services), the Assistant Director - Finance, the Interim Treasury and Investment Manager and the Democratic Services Team Leader.

The Chairman welcomed Councillor Bingham to the meeting, having recently been appointed to the Governance and Audit Committee.

24. DECLARATION OF INTERESTS

There were none.

25. MINUTES

The minutes of the meeting of the Governance and Audit Committee held on 11 November 2021 were agreed, and would be signed by the Chairman as soon as practicably possible.

The following matters arose:

- Under minute number 18 (Strategic Risk Register), reference had been made to the Safeguarding item and supporting evidence for 'clear referral pathways'. The Chairman confirmed that officers had circulated a response relating to the risk assessment query, and information around Safeguarding, earlier in the week.
- Under minute number 20 (Follow Up Report on Internal Audit Recommendations), members had commented that any extension to the timeline relating to Asset Management SH1809 should be brought back to the Committee for discussion – had relevant officers been made aware of this requirement? It was felt that any extensions for any item going forward should be treated in the same way.
 - The Internal Audit Manager confirmed that it had been addressed with the relevant officer, and that if a deadline extension was requested, that it would be included within the next follow up report in March,

Action By

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for discussion by the Committee.

- Under minute number 20 (Follow Up Report on Internal Audit Recommendations), the Committee had asked, with reference to Asset Management (SH2108) what the relevance in the notes to the partnership was when the service was place-based?
 - The Internal Audit Manager confirmed that a response had been provided by the officer – as a result of the new partnership, the Assistant Director responsible for the area was reviewing it, and to see if the Asset Management Plan should be duplicated across the partnership. As a result, an extension to September 2022 had been requested and this would be considered by the Committee upon consideration of the Follow Up Report at the next meeting.
- Under minute number 20 (Follow Up Report on Internal Audit Recommendations), the Committee had requested an explanation regarding the relevance of planned maintenance programmes to capital bids.
 - The Internal Audit Manager advised that the delay was as a result of much remedy work being required, hence the reference to capital bids. Again, an extension had been requested, to December 2022, and this would also be considered as part of the Follow Up Report at the next meeting.
- Under minute number 21 (Mid Term Treasury Report 2021/22), members had requested an explanation of the history of the Council's £67 million debt. The Committee was advised that officers were currently heavily involved in the budget setting process however, once this work had been completed, the explanation requested by the Committee would be circulated to members.

26. TREASURY MANAGEMENT POLICY & TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2022/23.

Consideration was given to the report of the Portfolio Holder for Finance, Commercialisation and Partnerships and the Deputy Chief Executive – Corporate Development (S151) which provided information for the Committee to undertake pre-decision scrutiny to the proposed Treasury Management Policy and Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2022/23.

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Members considered the information within the report and the following issues arose:

- Members commented that in November 2016, £50,000 of bonds had been bought from the Municipal Bonds Agency which appeared to have been written off. Did this policy ensure that this could not happen again?
 - Officers commented that, in line with accounting policies, the fair value of the bond at the end of the last financial year had been calculated at zero. It was also clarified that the investment had not been written off but was currently at a low value. Members were reassured that the issue would be looked into – there was a framework in place, restrictions on investment activities had been included within the policy and Link Group had provided external advice.

- Members noted that the Authority continued to use Link Group to provide external advice – how often was this situation reviewed to ensure the best advice was provided?
 - Officers responded that information on the contract with Link Group (when it was last awarded and when it was due for renewal) would be provided to members. It was always useful to scrutinise this area and the Committee could potentially provide this scrutiny when the contract next came up for renewal.

- Members referred to the second table at section 2.1 (Capital Expenditure) of Appendix B to the report, relating to prudential indicators. The figure for 2021/22 in the Capital Reserves column was £9,826,000 dropping to £3,845,000 for 2022/23 – in hindsight, had this been the right course of action or should things have been differently (e.g. more financing)?
 - Officers responded that when the current financial year had ended, it would be useful to look through figures to ascertain the situation and see if anything changed, prior to scrutinising the situation and identifying any alternatives.
 - The Assistant Director Finance added that the use of Capital Reserves funded both the HRA and General Fund Capital Programme – most of the reserve value would be in relation to reserves in the HRA to fund the capital investment in the HRA assets. Whenever the funding of the capital programme was undertaken, consideration was

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given to the best use of funding available.

- Members referred to a paragraph within section 2.4 of Appendix B, referring to loans issued or equity investment made in Welland Homes and South Holland Local Housing Company. Had the annual review taken place, and what would be the effect of taking the alternative approach have?
 - Officers stated that this paragraph was inserted into the template via the advisors link. With regard to SHDC, the only finance leases held were for recycling vehicles. The MRP figures for the current year were being worked on, and no difference had been identified. A consultation by CIPFA, looking at MRP practices was currently underway, which could lead to changes in the 2023/24 financial year.
 - The Assistant Director, Finance added that the auditors would provide a challenge to the MRP policy as part of the year end accounts review. With regard to the Welland Homes MRP and why a notational £1 charge was applied, it was explained that one of the purposes of MRP was to protect the Council against any future losses against this asset investment and as the company was an appreciating, and not a depreciating asset, it was prudent to attach the £1 notional value.

- Members referred to section 3.2 of Appendix B which referred to the authorised limit for external debt. The figure had remained the same for some time – was this correct, and what was the trigger for change?
 - Officers agreed that this limit had remained the same for some time. The limit would be discussed with Link Group before the next meeting of the Governance and Audit Committee.

- Members commented that section 4.5 of Appendix B stated that with regard to investment risk benchmarking, the Council had not adopted any formal benchmarks in this area. How did this compare to other councils?
 - Officers commented that not undertaking benchmarking in this area was not unusual but could be introduced if required – work could be undertaken to develop benchmarking appropriate to the size of the authority with the types of investments it held

- Members commented that it was important to achieve the correct balance between strict benchmarking, freedom and safeguarding, in order to maximise opportunities and minimise

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risk.

- Officers confirmed that before any investments were made, there were specific parameters that needed to be met in order to control investment risks.

AGREED:

- a) That the Committee note the Treasury Management Policy and the Treasury Management Strategy Statement, Minimum Revenue Provision Policy and Annual Investment Strategy 2022/23, which would form part of the budget report for consideration by the Cabinet on 15 February 2022 and Council on 3 March 2022; and
- b) That the issues raised by the Committee be taken forward for consideration as part of the budget report.

27. APPOINTMENT OF EXTERNAL AUDITORS

Consideration was given to the report of the Deputy Chief Executive – Corporate Development (S151 Officer), which asked the Committee to provide its views on the process for the appointment of the External Auditors.

The Committee was advised that the current auditor appointment arrangements covered the period up to and including the audit of the 2022/23 accounts. Public Sector Audit Appointments Limited (“PSAA”) were undertaking a procurement for the next appointing period, covering audits for 2023/24 to 2027/28. All local government bodies had to make important decisions about their external audit arrangements from 2023/24. The 3 options available to the Council were to arrange their own procurement and make the appointment themselves or in conjunction with other Council bodies, or they could join and take advantage of the national procurement scheme administered by PSAA.

The Committee discussed the options available, and the following points were made:

- Members asked if the proposed recommendation was agreed, but the outcome of the chosen auditor was not acceptable, did the Authority then have the right to pursue other avenues and select an auditor of its choice?
 - Officers advised that if the authority chose to join the national procurement exercise, it was opted in and could not then opt out. The procurement exercise would conclude in August 2022 at which point, PSAA would liaise with audit firms and local

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authorities to advise which auditors were available to them and a decision and appointment would then need to be made by December 2023. If the Authority did not join the national procurement exercise, and was then unsuccessful in appointing an auditor, after 1 April 2023 it could ask the PSAA if it could join at that point however, it could not be guaranteed that the Council's request would be accepted, and there was a high risk attached to this route.

- Members asked what input could be provided to the group – could it feed into the exercise and have its views taken account of?
 - Officers commented that there would be consultation but they were unsure as to how PSAA would take this feedback on board. Fuller information on this point would be provided when consideration was given to the options at Council in March.
- Members had some misgivings - if the Authority did chose to be part of the national process, it was important that the differences between SHDC and some larger authorities were not ignored.
 - Officers advised that, with regard to ensuring that the Authority's interests were represented, should it chose to opt in to the national procurement exercise, a covering letter could be sent to the PSAA, setting out concerns, observations and key messages for them to consider during the auditor appointment process.
- Members asked what the preferences were for the other two authorities within the S&ELCP Partnership?
 - Officers confirmed that the current officer recommendation for both East Lindsey District Council and Boston Borough Council was to join the national procurement exercise.
- The Chairman shared the concerns of the Committee. There appeared to be little choice other than using PSAA as the Authority was too small to pursue its own course. It was important to have some control over who the Authority's audit provider was as the commitment was for a long time, and it was important to have the ability to change. She also questioned how hard PSAA were fighting for authorities, particularly in view of the large fee increases.
 - Officers stated that PSAA had learned lessons from

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the last procurement exercise and had published on their website a set of Frequently Asked Questions and details of changes they wished to make. Previously there had been a 50% split between price and quality on the scoring mechanism – this weighting had now been changed to an 80% quality, 20% cost split. Since the original procurement exercise had taken place, there had been a lot of regulation change within local government audits which had not been accounted for in the original tender price – it was therefore important that auditors were bidding for a fair contract. The Assistant Director – Finance stated that she would circulate a summary of the Frequently Asked Questions provided by the PSAA to members

AGREED:

That the following recommendations be submitted to Full Council:

- a) To accept Public Sector Audit Appointments' invitation to opt into the sector-led option for the appointment of external auditors to principal local government and police bodies for five financial years from 1 April 2023;
- b) That delegated authority be given to the Section 151 officer (or deputy in their absence) to communicate the willingness of the council to join the scheme, led by PSAA and to enter into the scheme after a satisfactory examination / negotiation of the proposed terms and conditions is included
- c) That the issues raised by the Committee be communicated to the Council.

28. GOVERNANCE AND AUDIT COMMITTEE SELF-ASSESSMENT EXERCISE

Consideration was given to the 2020 Self-Assessment checklist to ensure that this was still an accurate reflection of the work and performance of the Governance and Audit Committee. The Committee also reflected on whether any suggested improvements had been completed where best practice was not demonstrated in the previous year.

Attached to the report was the self-assessment undertaken in 2021 which assessed how the Committee complied with the CIPFA position statement. Some areas (although more minor) had been scored as 'partly' and these would be addressed as part

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of the discussion – any comments would be noted and reflected within the full self-assessment report to be presented to the next meeting of the Committee on 17 March 2022. The Head of Internal Audit stated that the assessment last year had been positive, that the Committee operated very positively and that there was a lot of good practice demonstrated.

The following points were raised

Item 4 – Is the role and purpose of the audit committee understood and accepted across the authority?

- The Head of Internal Audit commented that generally, it was felt that the role and purpose of the Committee was understood, but could more be done? She also advised that, in the past, a report/leaflet had been prepared to Council and this was good practice – as a result of working more digitally, was this still appropriate?
- Members commented that it was difficult to assess whether holding meetings virtually was beneficial or not – some individuals felt that they might not be as effective and issues may not be so well publicised. However, this may be clarified or disproved by the Committee obtaining feedback on its performance from those interacting with the Committee or relying on its work (item 18)
- Some members felt that meetings were more effective face to face than virtually. It was important that as many members as possible were aware of the work of the Committee.
- Members commented that many people considered that the main focus of the Committee was reviewing the finances of the Authority, and were not as aware of its audit function. There had been a great improvement in this area, specifically with the progress of ensuring that outstanding audit recommendations were dealt with – could a summary report be produced to show the journey from then to the current position? The Committee did operate well, but new members were always welcome and demonstrating the Committee's success could help.
- The Head of Internal Audit commented that they had recently produced a member's informal bulletin/update, demonstrating the type of work undertaken by the committee. The Governance and Audit Committee at SHDC had been instrumental in driving down the reduction of outstanding historical recommendations. A more informal document to the annual report, reflecting the work of the Committee could be useful.
- Members felt that Item 4 should retain its 'partly' score.

Item 15 – Has the membership of the committee been assessed

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against the core knowledge and skills framework and found to be satisfactory?

- The Head of Internal Audit clarified that this was less to do with qualifications and more to do with members understanding of the Council and its operations. A skills and knowledge matrix had been circulated to identify any gaps in knowledge, where training could then be provided. There had been no responses received at the time, highlighting gaps in knowledge, which was seen as positive. It was felt that this should be recirculated as there were new members to the committee, in order to assess any training/refresher training that was necessary. It was suggested that the score for this item be changed to 'yes' and training addressed as required.

Item 18 – Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?

- The Head of Internal Audit made the point that some meetings had been held online and would as a result have received some feedback from residents engaging with this. However, this item also related to whether the Committee had produced an annual report, to ask members and officers whether the committee was effective and whether it could provide them with any support.
- Members commented that feedback from the auditors themselves should be included in this point – they had been very positive about the work of the Committee and that it had provided support to the auditors. A shift to 'yes' would be fair. It was stated however that the views of officers had not been sought.
- The Head of Internal Audit responded that annually, a view on the work of the auditors was sought from the Governance and Audit Committee. Likewise, going forward, the Committee could send a questionnaire to officers to seek their views. This would be a good measure to ensure that the Committee was evaluating itself.

Item 6 – Are the arrangements to hold the Committee account for its performance operating satisfactorily?

- Although the Committee had scored 'yes' to this question, members asked what arrangements were actually in place to hold it to account?
- The Head of Internal Audit stated that this referred to the production of the Annual Report to Council.
- Members asked if some research could be done into what other councils were doing to hold their committees to account.

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- The Head of Internal Audit commented that this section should be updated to reflect the improvement in addressing outstanding audit recommendations which had been driven by the Committee. Engagement with officers in this regard had improved, which had resulted in the number of outstanding items reducing significantly.
- The Head of Internal Audit raised the last two issues relating to Value for Money and arrangements regarding counter fraud and corruption risks. A training session had been undertaken earlier in the year regarding the latter, where the committee had agreed to be more involved, and a draft of the revised policy had been received by the Committee. It was felt that there had been an improvement in the area relating to counter fraud and corruption risks.
- Members commented that the score for 'Contributing to the development of an effective control environment' could be increased.
- Members commented that under 'Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risk', the commentary stated that Risk Management was on every agenda throughout the year. Although this was an item on most agendas, it was not on all of them and this statement should therefore be adjusted.
- Members commented that under 'Supporting the quality of the internal audit activity, particularly by underpinning its organisation independence' that the narrative should include reference to the fact that, where there were delays in actioning recommendations, that interim updates were now in place where they had not been before.
- Members felt that the scores for the Committee were generally high. It would also be helpful to learn from the knowledge and experience of the Governance and Audit Committees in the two other authorities within the S&ELCP Partnership. Some joint working with the committees could be beneficial.
- The Head of Internal Audit advised that she would use the information provided to refresh the document, add it to the report format and highlight action points to be taken forward.

AGREED:

That the comments raised by the Committee be noted and reflected within the full self-assessment report to be presented to the next meeting of the Committee on 17 March 2022

29. GOVERNANCE AND AUDIT COMMITTEE WORK PROGRAMME

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Consideration was given to the report of the Assistant Director – Finance, which set out the Work Programme of the Governance and Audit Committee.

AGREED:

That the report be noted.

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

There were none.

(The meeting ended at 5.00 pm)

(End of minutes).