

Minutes of a meeting of the **GOVERNANCE AND AUDIT COMMITTEE** held in the Meeting Room 1, Council Offices, Priory Road, Spalding, on Thursday, 28 July 2022 at 4.00 pm.

**PRESENT**

T A Carter (Chairman)  
H J W Bingham (Vice-Chairman)

C J T H Brewis

In Attendance: the Assistant Director - Finance, the Assistant Director – Regulatory, the Chief Finance Officer (PSPS), the Interim Treasury Manager (PSPS), F Haywood (Internal Audit Manager, Eastern Internal Audit Services), D Cooke (Ernst & Young), the Homeless Reduction and Private Sector Improvement Manager, the Democratic Services Team Leader and the Democratic Services Officer.

Apologies for absence were received from or on behalf of Councillors F Biggadike, M D Seymour and S C Walsh; Mark Hodgson (Ernst & Young); and the Senior Change and Performance Business Partner.

	<u>Action By</u>
<p><b>1. DECLARATION OF INTERESTS</b></p> <p>There were none</p>	
<p><b>2. MINUTES</b></p> <p><b>AGREED:</b></p> <p>That the minutes of the Governance and Audit Committee held on 17 March 2022 be signed by the Chairman as a correct record.</p>	
<p><b>3. ACTIONS</b></p> <p>Updated responses to Actions which arose at the 17 March 2022 Governance and Audit Committee meeting were presented to the Committee.</p> <p>Members considered the responses and made the following comments:</p> <ul style="list-style-type: none"><li>Regarding the Q3 Risk Report item (minute 37), members had sought clarity of the Staff Retention action response. The following update had been provided by the Assistant Director – Corporate and was presented to the Committee by the Assistant Director – Finance:</li></ul> <p><i>“Across the partnership we currently have 10 roles we are actively</i></p>	

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*recruiting to (which may not be the same as vacant roles for a number of reasons).*

*None of those active are in the areas we find more challenging to recruit – being Environmental Health; Planning (Development Management); Project/Programme Management.*

*As a Partnership we approved our Workforce Development Strategy in 2022, setting out the commitment the Partnership Councils make to supporting the development of colleagues that will, as one outcome, support retention.*

*The ‘Great Resignation’ is not looking to slow. A recent CIPD survey found that 20% of workers surveyed would likely quit their current role in the next 12 months, up from 16% in 2021.*

*Pay and incentives are part of the picture, but Harvard Business/Gallup and other notable research companies are looking at what employees value:*

- *Flexibility*
- *Outcomes over outputs – being able to see the impact they have to the organisation*
- *Diverse and Inclusive employers*
- *Learning & Development offering – ability to grow skills and develop*
- *Stability/Security*

*The Workforce Development Strategy picks up these points, with a view to creating a flexible workforce, underpinned by modern HR policies and opportunities for training and development. A good example of this development is our Future Leaders Programme, that seeks out aspiring leaders in the Partnership and provides them with opportunities to develop and progress in their career by building up greater knowledge and experience.*

*Via PSPS, training is now being procured Partnership-wide in order to secure a greater quantity of training for the budgets that each Council makes available”.*

- **Members stated that recruitment campaigns should include reference to the recent Public/Public category award received by the S&ELCP at the Local Government Chronicle (LGC) awards.**
  - **The Assistant Director – Finance stated that a new email signature, which referenced the award, would be circulated to staff the following day to assist in recognition of the award more widely.**

The Internal Auditor provided the Committee with the following update relating to the Progress Report on Internal Audit Activity

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actions (minute 38).

- Regarding 'Outstanding Recommendations': the Hackney Carriage and Private Hire Licencing Policy recommendations had arisen from the audit of South Holland District Council and Breckland District Council during the 2016/17 municipal year. Work had commenced but subsequent updates needed to be made. Outstanding issues were regularly brought to the Committee however this issue had not been raised as outstanding for the current meeting - the Internal Auditor would review the issue status and report back if overdue.
- Regarding 'Issues to be Addressed (other issues noted)': the digital submission of licence applications narrative was intended to be a positive audit comment and demonstrated good practice - no further action had been sought.

### **AGREED:**

That the Actions from the Governance and Audit meeting held on 17 March 2022 be noted.

#### **4. SOUTH HOLLAND DISTRICT COUNCIL - AUDITOR'S ANNUAL REPORT FOR YEAR ENDED 31 MARCH 2021**

South Holland District Council - Auditor's Annual Report for year ended 31 March 2021

Consideration was given to the Auditor's Annual Report (previously the Annual Audit Letter) produced by EY (Ernst and Young) for the year ended 31 March 2021. The report formalised the Audit Results Report which had come forward to the Governance and Audit Committee on 17 March 2022 and issued to the Council on 22 February 2022.

The EY Audit Manager introduced the report and highlighted the main points, which included:

- the Executive Summary: an unqualified audit opinion for 2020/21 was positive;
- the purpose and responsibilities of the Auditor's Annual Report;
- the Financial Statement Audit: no significant issues were identified in relation to the audit risks;
- Value for Money: which incorporated the new requirement of the National Audit Office's (NAO) 2020 Code to report against financial sustainability; governance; and improving economy, efficiency and effectiveness - no significant weaknesses were found. Governance at the Council had been identified as a potential risk for 2022/2023 as a result

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- of senior management working across three authorities;
- other reporting issues; and
- audit fees.

Members considered the report and made the following comments:

- Members stated that the report was positive.
- Members queried the following points:
  - Point 2 of the Governance section of the Value For Money Commentary had stated that ‘departments were not allowed to account for any growth’ as part of the budget setting process. What were the reasons for this?
    - The Audit Manager (EY) stated that the restriction of growth resulted from the need to control expenditure and was likely to be common across all councils in the current financial climate. Budget gaps needed to be managed. The approach taken had been based on the audit for 2021 however growth would need to be considered in the future due to current inflationary pressures.
    - The Assistant Director – Finance responded that growth was allowed but was managed through the budget setting process. Budget managers were asked to submit base budget scenarios with additional requirements submitted as supplementary bids.
  - On points 4 and 5 of the same section, a focus had been placed on SHDC’s Overview and Scrutiny Committees whereas the work of the Governance and Audit Committee was more relevant to the report and a stronger reference to the committee was called for.
    - The Assistant Director – Finance responded that this would be strengthened for this year.

**AGREED:**

That South Holland District Council’s Auditor’s Annual Report for year ended 31 March 2021 be noted.

**5. SOUTH HOLLAND DISTRICT COUNCIL - INITIAL AUDIT PLAN YEAR ENDED 31 MARCH 2022**

The EY (Ernst and Young) Audit Manager introduced the Initial

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Audit Plan by confirming the upcoming timeline of delivery - South Holland District Council were in the process of closing the accounts for 2021/2022 to be followed by EY's execution of work in September and October 2022. The Initial Audit Plan covered the following areas:

- overview of the 2021/22 audit strategy;
- audit risks: a summary of risks were included within the EY report - the new 'red' level significant risk had been attributed to the 'implementation of the new General Ledger System' and the inherent risk of 'infrastructure assets', whilst the reduced 'green' level of inherent risk had been allocated to 'accounting for COVID-19 related government grants'; and 'pension valuation and other disclosures';
- value for money risks;
- audit materiality;
- scope of the audit;
- audit team;
- audit timeline;
- independence; and
- appendices.

Members considered the report and made the following comments:

- Members noted that the risk level for the National Non-Domestic Rates (NNDR) Appeals Provision had remained unchanged at an 'inherent risk' however the narrative suggested that the risk was raised.
- Members queried why the Partnership had not been included as a risk, and whether the schedule of work would be affected if a risk was subsequently identified.
  - The EY Audit Manager responded that whilst the Partnership had been identified as a potential 'Value For Money' risk within the previous report, no capacity issues were currently evident within the Finance Team which would impact effective and timely preparation of accounts. Any issues raised during the 'Value For Money' work could lead to an alteration of this risk level in the future.
  - The Assistant Director – Finance added that any possible risk the partnership presented to the accounts would be highlighted under the governance and management arrangements and not within the financial arrangements themselves. The extra transactions required to administer the

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- partnership were low in volume and the new partnership arrangements had been referenced within the Annual Governance Statement.
- The Chief Finance Officer (PSPS) concurred and stated that transaction numbers were low and not material in value. There was confidence that EY would ensure that charging protocols followed between authorities were in order, nonetheless, any delays to the audit as a result of the EY assessment would affect the delivery of the planned schedule of work.
  - There was agreement that the risk regarding the partnership would remain unchanged but should any issues be identified by EY, this area could be rated as the highest 'red' risk for the following year.
    - The EY Audit Manager confirmed that identification of any risk would be raised during the monitoring process however this should not impact existing timeframes.
  - The Committee agreed the following Materiality figures set by EY:
    - Planning Materiality at £1.184m;
    - Performance Materiality at £0.89m; and
    - Audit differences at £60,000.
  - Members referred to the Value For Money assessment planning and queried why this had not been completed.
    - The EY Audit Manager stated that Value for Money 2021/2022 assessment planning had not been completed for any EY Cambridge council. An audit phased plan had been agreed with officers and was scheduled for September and October 2022.
  - Members noted the 'Developing the Right Audit Culture' section within the report, and queried whether the delivery challenges encountered during 2021/2022 had been resolved. It was important that the schedule was adhered to.
    - The EY Audit Manager acknowledged the challenges that had been encountered two years ago and stated that improvements were seen last year. In addition, the schedule was realistic and stronger plans had been implemented for 2022/2023 to ensure a timely delivery, this included:
      - that advance work had been undertaken and all requests were with the Finance team;
      - that a fixed EY team had been allocated to

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- South Holland District Council – from the planning stage to completion; and
- that a second EY Audit Manager had been allocated.

**AGREED:**

That the South Holland District Council Initial Audit Plan year ended 31 March 2022 be noted.

**6. PROGRESS REPORT ON INTERNAL AUDIT ACTIVITY**

Consideration was given to the report of the Head of Internal Audit to examine the progress made between 9 March 2022 and 18 July 2022 in relation to the completion of the Annual Internal Audit Plan for 2021/2022.

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 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 at South Holland was to each meeting.

To comply with the above requirements, the report identified:

- any significant changes to the approved Audit Plan – section 2 of the report detailed amendments which had been reported at the last meeting but had been included again for transparency;
- progress made in delivering the agreed audits for the year – these had been discussed with the Committee throughout the year and the vast majority of the work had been completed;
- any significant outcomes arising from those audits – provided at point 4.4 of the report; and
- performance indicator outcomes to date.

During the period covered by the report, Internal Audit had issued four reports in final:

- Housing Needs, Allocation, Homelessness, Housing Register (Reasonable Assurance);
- Private Sector Housing (Limited Assurance);

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- Human Resources (Reasonable Assurance); and
- Corporate Health and Safety (Limited Assurance)

The Head of Internal Audit highlighted the progress that had been made in the two areas that had received 'Limited Assurance':

- The Private Sector Housing Report had been given 'No Assurance' at the last audit however 16 urgent recommendations had reduced to 3 and significant progress had been made. A follow-up exercise had shown improvements and the area had been given a 'Limited Assurance' rating.
  - The Homelessness Reduction and Private Sector Improvement Manager stated that:
    - Further progress on the outstanding urgent recommendations were awaiting requested technical support from the external provider, Northgate. It was anticipated that the outstanding recommendations which related to budget reconciliation, financial reconciliation and report building would be resolved after the technical support had been received.
    - No update was available for the Caravan Licencing recommendation at the time of the meeting.
- Members noted the improvements that had taken place however all the issues raised were welcomed by the Committee as progress had been required:
  - Members specifically noted awareness of empty homes in their areas which they felt could have progressed more quickly; and
  - that quarterly reconciliations should be kept on track.
- A number of important recommendations had been raised from the Corporate Health and Safety audit which had resulted in a 'Limited Assurance' risk rating, however progress had been made and just one recommendation remained outstanding at the time of the meeting.
  - The Assistant Director – Regulatory responded with the following points:
    - the Assistant Director – Regulatory confirmed he had been the lead officer responsible for Health and Safety across the three sovereign authorities in the partnership since October 2021. Engagement with the audit process early in his tenure was welcomed and had expedited the understanding of health and



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- safety compliance within SHDC and quickly identified service strengths and areas for improvement;
  - that the audit had been conducted against the backdrop of the pandemic which had necessitated a rapid and reactive adjustment to health and safety priorities to ensure the safety of staff and members;
  - that the audit had acknowledged that the fundamentals were in place; and
  - that the recommendations had been welcome – all ‘important’ recommendations had been completed with the exception of one which was on a positive trajectory for completion. All agreed ‘needs attention’ recommendations had been completed.
- Members welcomed the progress within this area.
- Members referred to the ‘other points noted’ on the Assurance Review of Private Sector Housing and queried why a new Lincolnshire Discretionary Housing Assistance Policy had been drafted. Whilst it was understood that each authority would issue discretionary payments, South Holland District Council was the only authority within the S&ELCP to own properties and members therefore requested context behind the emergence of a joint policy.
  - The Head of Internal Audit responded that the draft policy was in the process of being written at the time of the audit, and the report had noted this.
  - The Homelessness Reduction and Private Sector Improvement Manager responded that private sector housing teams across the partnership operated differently, and senior managers were looking at how services could be aligned. At the time of the audit, South Holland District Council had written a new Discretionary Housing Assistance Policy and both BCC and ELDC were looking to rewrite their policies - alignment had been sensible.
  - The Assistant Director – Regulatory responded that the current journey of aligning policies and procedures and driving efficiencies across the three authorities of the partnership was underway but would take time to be fully implemented.
  - The Assistant Director – Finance responded that most policies were driven by government regulation and therefore baseline policy alignment across the partnership was sensible – policy nuances to fulfil individual needs of sovereign councils would be

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retained.

- Members referred to the Positive Findings of the Assurance Review of Human Resources and queried why the Council did not reclaim V.A.T. from Members' fuel expenses.
  - The Assistant Director – Finance stated that V.A.T. was claimed back for officers but not Members and would refer the issue to the Head of HR (PSPS) for clarification.

Members welcomed the report and thanked the Head of Internal Audit, the audit team and SHDC officers for the progress made.

**AGREED:**

That the information detailed within the report be noted.

**7. ANNUAL REPORT AND OPINION 2021/22**

Consideration was given to the report of the Head of Internal Audit which provided an Annual Report and Opinion for 2021/2022, drawing upon the outcomes of Internal Audit work performed over the course of the year, and concluded on the Effectiveness of Internal Audit.

In line with the Public Sector Internal Audit Standards, 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

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Effectiveness of Internal Audit, which included:

- The degree of conformance with the PSIAS and the result 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 Head of Internal Audit raised the following main points:

- The opinion itself was detailed at section 2.2 of the report:
  - the overall opinion in relation to the framework of governance, risk management and control at South Holland District Council was Reasonable – this conclusion was reached by considering a number of points which were detailed within the report;
- Section 3.2 of the report highlighted the summary of the internal audit work. SHDC's positive audit culture was welcomed by the auditors;
- Section 3.4 of the report outlined recommendations for inclusion within SHDC's Annual Governance Statement until they had been concluded; and
- Section 5 detailed the effectiveness of internal audit:
  - the majority of the planned work had been completed;
  - performance targets had been challenging for 2021/22 due to the continuing impact of Covid-19 and resulting pressures placed on teams. A recent resurgence of Covid-19 had impacted planned audits;
  - the audit team had strengthened 'timeliness' processes and new KPI thresholds had been introduced; and
  - two pieces of work were due to complete before the handover to the new internal auditor later in the year.

Members considered the report and the following issues were raised:

- Members referred to the effectiveness of the internal audit and noted that performance had not met agreed targets, nonetheless:
  - the positive audit culture had been constructive;
  - only three recommendations remained outstanding; and
  - the narratives on Appendix 4 were considered useful and needed to remain a feature within the report going forward.

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**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 2022;
- 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 2021/22; and
- d) That the conclusions of the Review of the Effectiveness of Internal Audit be noted.

**8. ANNUAL TREASURY MANAGEMENT REVIEW 2021/22**

Consideration was given to the report of the Interim Treasury and Investment Manager (PSPS) prior to it being submitted to Council for approval.

Appendix A incorporated the Annual Treasury Management review of the Council's activities and actual prudential and treasury indicators for 2021/2022, and included:

- an economic update for the 2021/2022 financial year;
- a review of the Council's investment portfolio for 2021/2022;
- a review of the Council's borrowing strategy for 2021/2022;
- debt position; and
- compliance with Treasury and Prudential indicators.

The Council was currently in the process of producing its financial statements for the 2021/2022 financial year, and these would be subject to external audit. The figures in the report were therefore subject to change, and any such changes would be reflected in the report submitted to Council.

During 2021/2022, the following reports had been submitted:

- An annual treasury strategy in advance of the year (Council 3 March 2021);
- A mid-year (minimum) treasury update report (Governance and Audit 11 November 2021); and
- An annual review following the end of the financial year, described the activity compared to the strategy (the report

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under consideration).

The regulatory environment placed responsibility on Governance and Audit Committee members for the review and scrutiny of treasury management policy and activities.

The report summarised the following:

- the Council's capital expenditure and financing 2021/2022;
- the Council's overall borrowing need;
- the treasury position as at 31 March 2022;
- the strategy for 2021/2022;
- borrowing outturn;
- investment outturn for 2021/2022; and
- the economy and interest rates with a commentary provided by Link Group.

Consideration was given to the report, and the following points were raised:

- Members asked what action would take place should interest rates increase sharply.
  - The Interim Treasury and Investment Manager (PSPS) predicted that interest rates would rise until inflation was under control and would then level off/decrease.
- Members referred to point 7 of Appendix A and queried the reduction in usable capital receipts from 3,220 to 4,905. What was the reason?
  - The Assistant Director – Finance would investigate and circulate the information to the Committee after the meeting.
- Referring to Table 6 on Appendix A, an explanation was requested for the stated differential between budgets and outturns for Garden Waste and Disabled Facility Grants; the same was requested for Wignals Gate Section 106 on Table 10, alongside an explanation of the purpose.
  - The Assistant Director – Finance would investigate and circulate the information to the Committee after the meeting.

**AGREED:**

That the information detailed within the report be noted.

**9. Q4 RISK REPORT 2021/22**

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Consideration was given to the report of the Assistant Director – Corporate to provide an update on the Council’s strategic risks for the period 1 January 2022 to 31 March 2022.

The Assistant Director – Finance provided the Committee with the following updates:

- Regarding appendix A, an updated narrative for the ‘Local Economy’ risk which reflected current trends would be circulated to the Committee after the meeting. The level of risk had not changed.
  - Members welcomed the updated narrative but suggested that the Local Economy risk would have changed. Members asked the Senior Change and Performance Business Partner to review the risk.
- Members noted the staff retention risk and asked if the existence of the partnership afforded greater internal training opportunities.
  - The Assistant Director – Finance referred to the staff retention and opportunities update noted in the Action agenda item.
- Members had not yet been offered training as stated in the ‘external communications breakdown’ risk mitigation narrative. When would this take place?
  - Training had been undertaken for senior officers and would be rolled out to members after the 2023 election, for the new municipal year.
- Members referred to the ‘internal communications breakdown’ risk and asked whether the implemented ‘comms calendar’ had resulted in an increase in communications from services.
  - The Assistant Director- Finance presented the Committee with an updated narrative provided by the Assistant Director – Corporate. The purpose of the ‘comms calendar’ was to inform member and officer briefings and was not intended to be a circulated document. Communications engagement was reported to the senior leadership team regularly and monitored at a high level. There were no concerns.
- Concerns were raised regarding Change4Lincs and members asked how the service could be improved. Was the contract being managed?
  - The Homelessness Reduction and Private Sector Improvement Manager stated that:

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- Change4Lincs was a jointly funded project hosted by South Kesteven District Council and included South Holland District Council, North Kesteven District Council and West Lindsey District Council;
  - the project utilised the Rough Sleeper Initiative (RSI) funding for a range of support such as the Street Outreach team and intensive support;
  - The first two rounds of RSI funding had been limited to 12 months which had led to recruitment challenges;
  - The RSI 5 bid had been successful with an award of £2m through a 3-year funding agreement which offered longer stability for teams and capacity for improvements;
  - Operational meetings had restarted, and a senior officer was in post; and
  - The SHDC Housing Options Team were looking to work collaboratively with Change4Lincs and meetings were being arranged.
- The Assistant Director – Finance would liaise with the Homelessness Reduction and Private Sector Improvement Manager to understand how the Change4Lincs contract worked and establish whether additional support was required. Details would be provided in the next Risk Report.

**AGREED:**

That the information detailed within the report be noted.

**10. GOVERNANCE AND AUDIT COMMITTEE WORK PROGRAMME**

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

The Democratic Team Leader introduced the report and highlighted the following points:

Regarding Appendix A:

- Known agenda items had been included in the schedule for the forthcoming year.

Regarding Appendix B:

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- The training log/schedule had been appended to the report at the request of the Chairman;
- Pensions training would be arranged for Committee members in the near future; and
- Draft Accounts training had been arranged for 8 September 2022.

**AGREED:**

- a) That the report and content of the Work Programme be noted; and
- b) That the training schedule be appended to the report for each meeting.

**11. ANY OTHER ITEMS WHICH THE CHAIRMAN DECIDES ARE URGENT.**

There were none.

(The meeting ended at 5.24 pm)

(End of minutes)