

Minutes of a meeting of the **GOVERNANCE AND AUDIT COMMITTEE** held in Meeting Room 1, Council Offices, Priory Road, Spalding, on Wednesday, 26 March 2014 at 6.30 pm.

PRESENT

G R Aley (Chairman)
R M Rudkin (Vice-Chairman)

F Biggadike
C J T H Brewis

P E Coupland
A M Newton

Apologies for absence were received from or on behalf of Councillors A Harrison

In Attendance: L Pledge (Audit Lincolnshire), J Castledene (Audit Lincolnshire), J Scott (Audit Lincolnshire), N Bellamy (Audit Director, KPMG), Helen Brookes (Audit Manager, KPMG) the Assistant Director Finance (Section 151) and the Performance and Risk Officer.

32. **MINUTES**

The minutes of the meeting of the Governance and Audit Committee held on 30 January 2014 were signed by the Chairman as a correct record.

33. **EXTERNAL AUDIT PLAN 2013/14**

Consideration was given to KPMG's External Audit Plan for 2013/14, which was presented to the Committee by the Audit Director, KPMG.

The external auditor's statutory responsibilities and powers were set out in the Audit Commission Act 1998 and the Audit Commission's Code of Audit Practice.

The Code of Audit Practice summarised the auditor's responsibilities into two objectives, requiring them to review and report on the Authority's:

- Financial statements (including the Annual Governance Statement): providing an opinion on the Authority's accounts; and
- Use of resources: concluding on the arrangements in place for securing economy, efficiency and effectiveness in the Authority's use of resources (the value for money conclusion).

Section two of the report included headline messages, focusing on the key risks identified for the year. The following risks were identified:

- With regard to the financial statements audit, a single significant risk had been identified, relating to the triennial revaluation of the Local Government Pension Scheme for Lincolnshire.
- With regard to the Value for Money (VFM) audit approach, one specific risk had been identified in relation to the Authority's arrangements for securing financial resilience in terms of developing and delivering its savings plans.

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Section three of the report outlined KPMGs audit approach. This was undertaken in four stages: Stage 1 – Planning (January to March); Stage 2 – Control evaluation (April); Stage 3 – Substantive procedures (July to September); and Stage 4 – Completion (May and September).

Section four of the report provided more detail on the triennial revaluation of the Local Government Pension Scheme for Lincolnshire, as highlighted above.

Section five of the report provided detail on other audit issues. Members were advised that during the year, the Council had implemented a new fixed asset register system. There was a risk that the data transferred between the systems was incomplete or inaccurate and that these inaccuracies affected the figures in the accounts.

In addition, professional standards required that consideration be given to two standard issues for all organisations. These would be considered as a matter of course in the audit and any findings would be included within the ISA 260 report. The two issues were management override of controls and fraudulent revenue recognition.

Section six of the report explained KPMGs' approach to VFM work. In meeting their statutory responsibilities relating to economy, efficiency and effectiveness, the Commission's Code of Audit Practice required auditors to:

- Plan their work based on consideration of the significant risks of giving a wrong conclusion (audit risk); and
- Carry out only as much work as was appropriate to enable them to give a safe VFM conclusion.

The VFM audit methodology remained unchanged from last year, There were only relatively minor amendments to reflect the key issues facing the local government sector. The specified criteria for VFM conclusion were:

- The organisation had proper arrangements in place for securing financial resilience; and
- The organisation had proper arrangements for challenging how it secured economy, efficiency and effectiveness.

More information was also provided in this section on the identified risk regarding the Authority's arrangements for securing financial resilience in terms of developing and delivering its savings plans, as detailed above.

Section seven of the report provided information on the audit team, its proposed deliverable, the timescales and fees for their work.

Under the audit deliverables, the following information would be provided to the Committee

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- External Audit Plan – March 2014
- Report to Those Charged with Governance (ISA 260 report) – September 2014
- Auditor's Report – September 2014
- Whole of Government Accounts – September 2014
- Annual Audit Letter – November 2014

The Audit Fee for the 2013/14 audit of the Authority was £58,482. The fee had not changed from that set out in the Audit Fee Letter 2013/14 issued in March 2013. However, KPMG had identified that additional audit work was likely to be required to review and test the Council's new asset register system. The impact on fees would be discussed with the Assistant Director (Finance) in due course.

AGREED:

That the External Audit Plan 2013/14 be agreed.

34. CERTIFICATION OF GRANTS AND RETURNS 2012/13

Consideration was given to KPMGs' Certification of grants and returns 2012/13. The report summarised the results of work on the certification of the Council's 2012/13 grant claims and returns. For 2012/13, three returns with a total value of £47.5 million were certified.

Unqualified certificates were issued for two grants and returns but a qualification letter was necessary for the Housing and Council Tax Benefit claim. Testing of the Housing and Council Tax Benefit claim identified several processing and classification errors, some of which could not be addressed through amendment, and were therefore reported in a qualification letter to the Department of Work and Pensions. These results were consistent with the previous year where a qualified certificate and qualification letter were also issued in relation to the Housing and Council Tax Benefit claim.

Adjustments were necessary to one of the Council's returns as a result of the current year's certification work. An agreed adjustment, resulting in an amendment to the amount due to the Council, of £2,921 was made to the Housing and Council Tax Benefits Claim as a result of errors identified in the Council's claim compilation methodology.

The Council had adequate arrangements for preparing its grants and returns and supporting the certification work, but improvements were required in some areas. The number of errors identified from testing the Housing and Council Tax Benefit claim had again increased from the previous year, necessitating additional work to be undertaken by both the Council's and KPMG's own staff. The quality of completion of the mandated workbooks by the appointed Council staff had diminished from previous years, necessitating additional work to be undertaken.

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The overall fee for the certification of grants and returns was £10,782. This was higher than the original estimate but 34% lower than the previous year. The overall fee for claims certification was £1,782 higher than the original estimate although £5,534 lower than the previous years fee. This had arisen as a result of changes to the Audit Commission fee regime and differences in the level of work required for each claim compared to a base year of 2010/11 in particular – additional work on the Housing and Council Tax Benefit claim and the pooling of Housing Capital Receipts return; and reduced work in relation to the National Non-Domestic Rates return.

Listed at the end of the report were KPMG's recommendations. Each recommendation had been given a risk rating and action management would need to take had been agreed. These recommendations would be followed up during the next year's audit. The recommendations identified were:

Workbook Completion – Any staff involved in completion of the Audit Commission workbooks were encouraged to attend update training sessions on a periodic basis to ensure that they remained fully appraised of the Audit Commission requirements.
Risk Based Verification Policy – It should be ensured that the appropriate report was prepared by the S151 Officer and subsequently formally approved by Members.

AGREED:

That the Certification of grants and returns 2012/13 be noted.

35. PROTECTING THE PUBLIC PURSE

Members gave consideration to a fraud briefing entitled 'Protecting the public purse'.

In November 2013, the Audit Commission published a national report, 'Protecting the Public Purse 2013. Fighting fraud against local government'. The report was intended to show those responsible for governance in local government bodies how they could fight fraud more effectively.

Following publication of the national report, the Commission had produced tailored fraud briefings for individual councils. These briefings:

- Could be delivered to those responsible for governance at individual audited bodies, typically the audit committee or equivalent;
- Had been developed by the Commission's counter-fraud team; and
- Provided contextual and comparative benchmark data

The briefing was a tailored briefing that was undertaken every two years. It provided information on national trends and individual data relating to South Holland.

Following the presentation, members discussed the information and the following issues were raised:

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- Members asked if SHDC could liaise with other Councils to learn of any successes they may have had in detecting fraud. KPMG advised that all authorities were encouraged to do this.
- KPMG advised that at the back of the full report 'Protecting the Public Purse 2013' was a checklist for Governance and Audit members to undertake self-analysis. This would be sent through to members for their attention.
- Members requested that the fraud team at SHDC attend a future meeting of the Governance and Audit Committee to explain their work.
- Members were advised that the Government was planning to introduce a single fraud initiative which would bring together all social benefit fraud. This could result in some local resources relating to these areas being centralised, although a resource would still be retained to cover other types of fraud.
- The Government had allocated £16.6 million to cover corporate fraud. It was suggested that Lincolnshire authorities could work together collectively to gain some of this funding. It was felt that it would be positive to show all authorities working together to fight fraud.

AGREED:

- a) That the information from the 'Protecting the public purse' fraud briefing be noted; and
- b) That the self-analysis checklist appended to the 'Protecting the Public Purse 2013' report be distributed to members of the Governance and Audit Committee in due course.

36. INTERNAL AUDIT

Consideration was given to the report of the Head of Audit and Risk Management (Audit Lincolnshire) and the Assistant Director, Finance, which updated the Committee on progress with the Audit Plan for the period November 2013 to February 2014.

All the audits that were to be completed as part of the 2013/14 Audit Plan were in progress, and the auditors were on track to deliver reports by the end of March 2014.

Two areas had been removed from the plan with the agreement of the Assistant Director – Finance. The audit of Efficiency Savings would be deferred to next year's plan as this would be a more useful time for the review to be undertaken. The audit of Project Management had also been deferred – this was a follow up of a previous audit and had been deferred as there were no new projects to review that would demonstrate recommendations had been implemented.

The following audit work had been completed and a final report issued:

- Treasury Management – Full Assurance
- Housing Benefits – Substantial Assurance
- Council Tax and NNDR – Substantial Assurance

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- Information Governance – Limited Assurance
- Procurement – Limited Assurance

The management summaries for the two Limited assurance audits reported were provided in Appendix 2 to the report. Progress with the implementation of agreed management action on recommendations for previous audits resulting in 'No' or 'Limited' assurance was followed up and reported in Appendix 3 (summary) and Appendix 4 (detail). In the audits given Full and Substantial Assurance, it had been confirmed that the Council had sound processes in place.

The following audits were currently in progress, at various stages of completion:

- Welfare reform
- Payroll
- Bank Reconciliation
- Accounts Payable
- HR Strategy and Policies
- Risk Management
- Business Continuity
- ICT audit – Data Migration of Fixed Asset Register
- ICT audit – Systems Supporting Finance/General Ledger and Cash Receipting Processes

Members attention was drawn to other matters of interest detailed within the report which included:

- Audit Commission – Tough Times 2013 (November 2013) – This was the Audit Commission's third and final report examining the scale and impact of funding reduction from Central Government;
- Audit Committees – Practical Guide for Local Authorities and Police, 2013 Edition (CIPFA) – CIPFA had issued updated guidance on the function and operation of audit committees in local authorities and police bodies. It represented CIPFA's view of best practice; and
- The Whistleblowing Commission – Report on the effectiveness of existing arrangements for workplace whistleblowing in the UK – November 2013.

Members considered the report and the following issue was raised:

Within Appendix 2, under the item on Procurement, where improvements could be made, one of the items stated 'It was difficult to locate the contracts required as the contract register was held electronically on SHINE but access was restricted. Once this information was available, we found that it did not contain the filing references to locate a contract'. Members asked how long it had been between the access difficulty being identified and access being obtained. The auditors were not aware of the timeframe but would find out this information and report back.

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AGREED:

That the report be noted

37. DRAFT INTERNAL AUDIT PLAN 2014/15

Consideration was given to the report of Audit Lincolnshire which presented to the Committee the Draft Internal Audit Plan 2014/15. The report set out the proposed work of Internal Audit for 2014/15. The plan had been developed using information from the Council's Assurance Map, which identified assurances present and their source against the Authority's critical activities and risks.

The Internal Audit strategy had been developed to demonstrate how assurance could be given on:

- The critical systems of the Council
- Due diligence activities
- Strategic Risks
- Emerging risks
- Key transformation programmes and projects
- ICT Assurance

The level of assurances in place had been identified by using the 'Three lines of Assurance' Model' – Management, Third Party and Independent Audit.

The combined assurance map showed where Internal Audit could co-ordinate their assurance work across the whole Council. This approach would enable the Head of Audit to produce their annual opinion on the Council's governance, risk and control framework for 2015.

Each year, a risk based audit plan was developed, and in developing the plan, Internal Audit had identified a number of critical activities which they did not have the resources to view. The Governance and Audit Committee could specifically request management to provide assurance on these areas. Once the assurance map had been agreed, Internal Audit would provide a further report to the Governance and Audit Committee with more details. These areas provisionally included:

- Project Management
- Performance Management
- Waste Management/Household Collection
- Sheltered Housing
- Cemeteries
- Environmental Protection/Licensing/Food Safety
- Property Strategy/Asset Management plan

Internal Audit co-ordinated their work on key financial systems with the Council's External Auditors, KPMG. They were working towards a joint working protocol which

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set out where the External Auditor sought to place reliance on Internal Audit's work. This ensured that the Council got the most out of its combined audit resource, keeping audit fees low.

Internal Audit also worked with Internal Audit colleagues at East Lindsey District Council on systems that were provided to both councils by Compass Point Business Services (East Coast) Ltd, to avoid duplication of work and make the best use of resources.

The type of areas included in the draft Internal Audit Plan 2014/15 were shown within the report, and detailed projects were outlined in Appendix C to the report. A schedule of audits would be developed with management once the plan had been approved.

Members were advised that the Plan was still draft and had to be presented to the Corporate Management Team for agreement.

AGREED:

That the proposed Internal Audit Plan for 2014/15 be approved.

38. UK PUBLIC SECTOR INTERNAL AUDIT STANDARDS AND INTERNAL AUDIT CHARTER

Consideration was given to the report of the Head of Audit and Risk Management (Audit Lincolnshire) and the Assistant Director Finance, which informed the Committee of the key elements of the UK Public Sector Internal Audit Standards and presented a draft Internal Audit Charter following the introduction of the Standards.

In May 2011, the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA) agreed to collaborate in the development of the internal audit professions in the public sector. As a result, UK Public Sector Internal Audit Standards (PSIAS) were developed.

PSIAS came into force from 1 April 2013 and aimed to promote further improvement in the professionalism, quality and effectiveness of internal audit across both public and private sectors. They reaffirmed the importance of robust, independent and objective internal audit arrangements and the key role it played in the Council's assurance arrangements and supporting the Section 151 Officer, including the development of the annual governance statement.

Detailed within the report were key elements of the Standard. These key elements included:

- Definition of Internal Audit
- Code of Ethics
- Purpose, Authority and Responsibility
- Performance Standards and Professional Practice

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In April 2013, CIPFA produced a Local Government Application Note for UK Public Sector Internal Audit Standards 2013, against which a self-assessment had been conducted by Audit Lincolnshire. A summary of the results of this self-assessment by the Head of Audit was attached at Appendix A to the report. This information, together with the outcome of Audit Lincolnshire's Quality Assurance Improvement Programme, had been provided to the Assistant Director Finance to help inform the Council's annual review of the effectiveness of the internal audit function.

Listed within the report were a number of actions/changes resulting from the new Standards.

A draft Audit Charter was attached at Appendix B to the report for the Committee to review and comment upon. The purpose of the Charter was to set out the nature, role, responsibilities and Authority of the Internal Audit Service and that of Council's Senior Management and Governance and Audit Committee.

As part of the report's recommendations, the Committee had been asked to consider the impact of the UK Public Sector Internal Audit Standards and: a) Agree how they wished to be involved in the annual review of the effectiveness of the Council's Internal Audit function; and b) The content/suitability of the draft Internal Audit charter and identify any changes the Committee wished to make, prior to its adoption. The Committee agreed that it wished to be kept involved in the annual review of the effectiveness of the Council's Internal Audit function and requested that a separate meeting be arranged to consider how to take this forward.

AGREED:

- a) That the report be noted; and
- b) That the Governance and Audit Committee be involved in the annual review of the effectiveness of the Council's Internal Audit function and a separate meeting be arranged to consider how to take this forward.

39. CIPFA GOOD GOVERNANCE FRAMEWORK AND GUIDANCE

Consideration was given to the report of the Head of Audit and Risk Management (Audit Lincolnshire) and the Assistant Director, Finance, which presented members with an update on the CIPFA Good Governance Framework and Guidance and how this could impact on the Council's Governance framework.

In December 2012, CIPFA issued a revised 'Delivering Good Governance in Local Government Framework' with associated guidance. These set out best practice to be followed for developing and maintaining a local code of governance, including the publication of an annual governance statement. It defined six core principals by which Councils could test out their governance arrangements:

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- Focussing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area;
- Members and officers working together to achieve a common purpose with clearly defined functions and roles;
- Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
- Taking informed and transparent decisions which were subject to effective scrutiny and managing risk;
- Developing the capacity and capability of members and officers to be effective;
- Engaging with local people and other stakeholders to ensure robust accountability.

CIPFA had not changed the Framework from the original 2006 publication, however the guidance had been updated to reflect:

- Changes to structures resulting from the way local government operated and undertook service provision – partnerships, collaboration, commissioning, shared services including shared management teams and chief executives.
- New roles and greater flexibility through the Localism Act and other legislation.
- Increasing transparency of date.
- Responsibilities for public health.
- Governance requirements to support the role of the Chief Financial Officer and Head of Internal Audit.

It gave greater flexibility in demonstrating compliance but gave greater emphasis on scrutiny, fraud, maintaining standards and governance of risk.

The Governance and Audit Committee played a key component of the Council's governance framework – one of its roles was to oversee to Local Code of Governance and the development of the Annual Governance Statement.

The updated guidance included assessment questions around each of the six principles of good governance, relating to shared chief executive and management teams, and were appended to the report. Also attached were questions the Governance and Audit Committee may ask relating to the core principles and value for money.

As part of Internal Audit planned audit work for 2012/13, a review of the Council's Corporate Governance framework was undertaken against the CIPFA/SOLACE Framework – Delivering Good Governance in Local Governance.

Internal Audit provided substantial assurance and recommended that the Council reviewed and updated its Code of Corporate Governance to reflect new requirements. Consideration and inclusion of these requirements would ensure the local code reflected best practice and compliance with the principles of good governance.

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The Local Government Association had recently published the outcome of its peer review on South Holland and Breckland Councils. It was suggested that the Committee may wish to consider the key messages in the report and any impact they may have on the governance arrangements of the Council and assurances it may wish to seek as part of its role and remit.

The Assistant Director, Finance advised that a revision of the Local Code of Governance had been prepared, and that the CIPFA guidance was reflected in the governance arrangements. He was aiming to bring a report to the next Committee meeting in June. The Chairman offered to provide assistance in this should it be required.

Members commented that the information provided in the two appendices was very helpful and that it may be useful to consider the questions at a separate meeting of the Committee.

AGREED:

- a) That the information provided within the report be noted; and
- b) That the questions detailed within appendices A and B to the report be considered at a separate meeting of the Governance and Audit Committee.

40. RISK MANAGEMENT

Consideration was given to the report of the Assistant Director, Democratic Services, which updated the committee on risk management as at March 2014.

Since the last risk report received by the Committee in June 2013, a new performance management process had been implemented, and the way in which this was managed and reviewed was detailed within the report. In addition, the officers who had previously supported risk management within the organisation had left the authority, and the Performance and Risk Officer (James Edwards) had now taken over this role.

Risks were grouped into two categories:

- Strategic – these were risks that affected the whole and long term plan of the council. These risks could fundamentally impact upon the Authority's reputation, the organisation that it was, and the dependable, accountable delivery of public services.
- Operational – These risks concerned the day to day activities in the delivery of functions and services.

Risks were rated using a 3x3 matrix through a numerical number that combined the impact score of the risk occurring, with the likelihood score of it happening. Risks were then classed as High, Medium or Low risks dependant on their rating.

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The risk summary covered two areas; a) The risk summary table showed the total number of risks by category and the percentage of high, medium and low risks within each category; and b) The exceptions report, a detailed report to provide focus on high level risks.

A Risk Summary Table was detailed within the report, showing the risk position at 14 March 2014. The table detailed 11 Strategic risks and 62 Operational risks. Therefore:

- Strategic Risk Overview: Overall rating was High
- Operational Risk Overview: Overall rating was Medium

The Exceptions Report was attached at Appendix B to the report.

AGREED:

That the report of the Assistant Director, Democratic Services, be noted.

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

Consideration was given to the report of the Assistant Director, Democratic Services, which provided details of the Committee's work programme. A copy of the work programme was attached as an appendix within the report.

AGREED:

That the report be noted.

(The meeting ended at 8.02 pm)

(End of minutes)