

COUNCIL

15 MAY 2017

1. To receive the unconfirmed minutes of the meeting of the Audit and Governance Committee held on 20 March 2017.
2. To approve the Code of Corporate Governance as set out in Minute 52.

Present: Councillor Dr Gordon Gregory (Chairman), Councillor Judith Skinner (Vice-Chairman), Councillors Colin Brotherton, James Edwards, Paul Gleeson, Jonathan Noble, Barrie Pierpoint, Felicity Ransome and Mr Alan Pickering

Officers –

Head of Financial Services, Director (KPMG), Internal Audit Manager (City of Lincoln Council), Internal Auditor (City of Lincoln Council), Transformation and Governance Manager, Accountancy Manager Capital and Treasury and Senior Democratic Services Officer

Vice-Chairman in the chair for the preliminaries

47 MINUTES

The minutes of the last meeting, held on 30th January 2017, were agreed as a correct record and signed by the Vice-Chairman.

48 APOLOGIES

There were apologies for absence from Councillor Martin Griggs.

[Cllr Dr Gordon Gregory arrived at this point.]

Chairman in the chair.

49 EXTERNAL AUDIT PLAN 2016/17

The Committee considered KPMG's External Audit Plan for 2016/17.

Mr Cornett, KPMG Director, went through the report headlines: materiality, significant risks, other areas of audit focus and value for money arrangements work.

Materiality was a matter of professional judgement; no formula was used. The level of materiality for Boston had been set at £800,000 and this was the level at which it was considered that the view of the users of the accounts would change or be influenced. This meant those using the accounts, such as Government departments, rather than those simply reading them.

KPMG was obliged to report uncorrected omissions or misstatements other than those which were 'clearly trivial' and it was proposed that an individual difference could normally be considered to be clearly trivial if it was less than £35,000; this was simply a reporting threshold.

The value for money arrangements work was objective and involved checking that the arrangements, procedures and systems were in place to enable the Council to decide if it was providing value for money, which was a subjective matter. One significant risk had been identified, the delivery of the savings plan, which was a standard risk across authorities.

The audit team remained the same as previously and the fee was the same as that set in previous years, though there might be an additional fee if extra work was required. Individual Members expressed concerns about the threshold for errors; the use of the term 'trivial'; the pension scheme liability; and money allocated by the Boston Town Area Committee (BTAC) for Christmas Lights.

Mr Cornett explained that if an error of £35,000 was identified in the accounts, officers would be asked to correct it. It was entirely within the officers' gift to decline to correct such an error; this would not be material and would not impact on his opinion, but would be reported as not corrected.

The term 'trivial' was lifted directly from the Audit Standards and had to be used.

The Council's position with respect to pensions was the same as most, if not all, local authority schemes in that it was currently running at a deficit, i.e. the liability was greater than the assets. The authority's share of this liability was always shown in its financial statements. Part of the work of the triennial valuation was to re-set the contributions made to the scheme to prevent future deficits and to ask the authority to pay lump sums each year to off-set and mitigate the existing deficit, though this was not based on the current deficit, but on the actuary's assumptions regarding the deficit in the future.

The Head of Financial Services added that the triennial valuation aimed to get to a balanced position over a 20-year period; there could be significant fluctuations at times, but it was expected that it would be balanced over time.

A Member suggested that BTAC should be audited with respect to the allocation made for Christmas Lights, but others pointed out that this was not relevant to this Committee's role, which was to examine errors within the Council's accounts.

RESOLVED: That the External Audit Plan for 2016/17 be noted.

50 QUARTER 3 RISK REPORT

The Transformation and Governance Manager presented a report giving the headline strategic risks for Quarter 3 of 2016/17, i.e. to 31 December 2016.

Strategic risks, those that could impact most on the achievement of the Council's corporate priorities, were monitored each month. The summary for Quarter 3 was attached at Appendix A. The Corporate Plan set the strategic objectives for the Council: Prosperity, People, Place and Public Service

Comments from the review of risks by Members and officers would be incorporated in the Quarter 4 report. The risk management framework would also be considered in Quarter 4, as well as an outline of process and reporting arrangements in light of changes being considered by the Scrutiny Committees following recent training.

During debate, the report was commended for its clarity. A question was raised about health issues, as this was a responsibility of the County Council. It was explained that the wording required consideration with respect to how much the Council could influence this area and work with partners to deliver on the health agenda.

The Chairman of the Prosperous Boston Task and Finish Group reported that it was currently reporting on Phase II of its review and would make a final report to Full Council later in the year.

Action: SR

Feed back the following comments from Members:

- The Council did not have a strategy with respect to growth, the economy or the direction of the Council.
- The impact on individuals of the risk under the heading 'welfare' would be greater than 'minor'.

RESOLVED: That the Quarter 3 Risk Report be noted and Members' comments be fed back to officers.

51 ACCOUNTING POLICIES

The Senior Accountant (Capital and Treasury) presented a report, which sought approval of the proposed Accounting Policies for the 2016/17 Statement of Accounts.

The changes, highlighted in the Accounting Policies attached as Appendix A, were mainly as a result of changes to the Accounting Code of Practice and to ensure clarity of the approach taken.

There were no significant changes to this year's policies that required any restatement of previous years' comparatives, although when the Statement of Accounts was presented to Members in May there would be some restatements due to other changes in the presentation necessitated by this year's Code.

In response to a question, it was explained that the *Depreciation Accounting Policy* produced a linear depreciation.

RESOLVED: That the Statement of Accounts 2016/17 – Review of Accounting Policies be approved.

52 CORPORATE CODE OF GOVERNANCE

The Transformation and Governance Manager presented a report on the Code of Corporate Governance, attached at Appendix A, which had been reviewed and updated in line with revised published guidance.

CIPFA (the Chartered Institute of Public Finance and Accountancy) and Solace (Society of Local Authority Chief Executives) published a Governance Framework, which set out best practice for developing and maintaining a locally adopted code of governance – "Delivering Good Governance in Local Government: Framework". The Framework had been revised and updated in 2016 and the Council's local code of corporate governance had been revised and updated in line with the new core principles and sub-principles.

A self-assessment exercise had been undertaken with the Corporate Management Team (CMT) against the new framework to inform the development of the revised code, which was based on a set of seven core principles as set out in the CIPFA publication.

Each principle was considered individually, aligning documentation, systems and processes to a number of sub-principles and behaviours and actions that demonstrated good governance in practice.

Compliance with the Code would be monitored on an annual basis through the Council's Annual Governance Statement. The Committee was asked to comment on the attached revised Code and recommend it to Council for approval.

Action: SR

- Retain the paragraph referring to the Council's approval and adoption of the code, as the final version will be.
- Add the Council's Local Choice Interests procedure to the section *Behaving with Integrity*.

RESOLVED: That the Corporate Code of Governance be recommended to Full Council for approval.

53 ANNUAL GOVERNANCE STATEMENT

The Transformation and Governance Manager presented the draft Audit and Governance Statement (AGS), attached to the report at Appendix A, for Members' comments.

The Accounts and Audit Regulations 2015 required local authorities to conduct, at least annually, a review of the effectiveness of their governance framework including their systems of internal control. This had to be documented in an AGS and prepared in accordance with proper practices, including those set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authority Chief Executives (Solace) guidance "Delivering Good Governance in Local Government: Framework (2016)". The AGS assessed compliance with the Code of Corporate Governance and covered the seven core principles set out in the newly revised Code of Corporate Governance reflecting the most recent changes to the framework.

A self-assessment exercise had been undertaken with Corporate Management Team (CMT) against the new framework to inform the draft AGS. A revised version would be reported back to the Committee in May. The final AGS had to be published as part of the Council's Annual Accounts.

It was confirmed that risk appetite sessions had been held previously with Members with respect to strategic risks and had now been held with officers with respect to operational risks.

With respect to an action listed, that the "Corporate Director to continue to attend parish councils to improve governance", it was commented that most parish councils did not have codes of conduct yet and that there had been a move towards a county-wide code, which all parish councils would be able to sign up to.

Mr Cornett commented that the list of areas for improvement contained many that were not governance issues, but were more routine activities; this section should include areas of weakness and the actions to address them.

The Transformation and Governance Manager added that the draft AGS appeared wide as it was based on the self-assessment; comments and be taken on board and the final version would be more targeted.

Action: SR

1. Provide Councillor Noble with details of the partners jointly bidding with the Council for funding from the Government's *Bid for Migration* fund.
2. Review the actions for 2017/18 and amend in line with the comments received at the meeting

54 COMBINED ASSURANCE - STATUS REPORT

The Internal Audit Manager, John Scott, presented a status report on combined assurance, the fifth combined assurance report for the Council.

Assurance arrangements were co-ordinated in the Assurance Map, which gave an overview of assurance provided across the whole organisation, not just from Internal Audit, making it possible to identify where assurances were present, their source, and where there were potential assurance unknowns or gaps.

Red (low), Amber (medium) and Green (high) ratings were used to help assess the level of assurance confidence in place. Internal audit had helped co-ordinate these and provided some challenge, but the overall assurance opinion was based on the assessment and judgement of senior management, with whom accountability rested. Assurance was obtained from management, corporate and third party, and Internal Audit.

This year, 91 critical systems, 5 projects and 15 strategic risks had been identified. Out of the total of 111 areas reviewed, 105 had Green assurance and 6 had Amber assurance, which maintained the high level of Green assurance (95%) achieved last year.

Members expressed satisfaction with the results of the status report.

It was noted that the operational risk relating to CCTV currently had a Red risk rating because of supplier delays with respect to technical upgrades. The maintenance contract would expire in September 2017 and costs might increase, but there had been no cost overrun at this stage.

RESOLVED: That the Combined Assurance Status Report be noted.

55 INTERNAL AUDIT PROGRESS REPORT 2016/17

The Internal Audit Manager, John Scott, presented a report, which detailed progress with work from the Audit Plan for 2016/17.

As at the end of February 91% of the plan had been delivered, compared to the target of 90%. Of the 14 audits in the 2016/17 audit plan, eight had been completed and two were at draft report stage. The remaining four audits were in progress with the aim of having them at draft report stage by the end of March.

Two final reports had been issued since the last report, *Human Resources* and *Governance*, which had both been awarded Substantial Assurance.

In addition, due diligence work had been undertaken at the request of the Head of Financial Services with respect to the Christmas Lights expenditure by the Boston Town Area Committee (BTAC), as reported to that Committee on 22nd February 2017.

Scheduling work would commence shortly on the 2017/18 audit plan to get management's views on convenient timeframes for audits to be undertaken.

Members discussed BTAC's expenditure on the Christmas Lights. It was remarked that the scheme had not delivered what BTAC had wanted, but also that BTAC's sub-group had known exactly what it would deliver.

There was a request that the expenditure be added to the Committee's work programme on the grounds of public interest because the report to BTAC on 22nd February had lacked details of the breakdown of expenditure and overspend. However, it was pointed out that BTAC had purely allocated a grant and there was no governance issue for the Committee to consider. BTAC's accounts would simply show an expenditure of the full amount. The grant had been spent by the Chamber of Commerce, a separate organisation that was not audited by the Council, there had been no overspend and the breakdown of expenditure was already in the public domain.

The Head of Financial Services advised Members that BTAC's accounts formed part of the Council's accounts, which KPMG audited. Also, as mentioned in the report, Internal Audit had been asked to carry out due diligence work with respect to the expenditure and had found nothing wrong in terms of governance.

It was suggested that any further clarification could be sought from the Chairman of BTAC.

RESOLVED: That the Internal Audit Progress Report for 2016/17 be noted.
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56 INTERNAL AUDIT PLAN 2017/18

The Internal Audit Manager, John Scott, presented a report summarising the proposed work of Internal Audit for 2017/18.

The aim was to give a high level overview of areas Internal Audit was likely to cover during the year, giving the Committee an opportunity to comment on the proposals.

The plan of work was appended to the report and was the same as had been reported previously with the addition of trade waste income, which might be looked at if resources became available.

RESOLVED: That the Internal Audit Plan for 2017/18 be noted.
