

# Governance and Audit Committee



SOUTH  
KESTEVEN  
DISTRICT  
COUNCIL



---

Wednesday, 30 November 2022 at 1.00 pm  
Council Chamber - Council Offices,  
St. Peter's Hill, Grantham. NG31 6PZ

---

**Committee** Councillor Paul Wood (Chairman)  
**Members:** Councillor Kaffy Rice-Oxley (Vice-Chairman)

Councillor Richard Dixon-Warren, Councillor Gloria Johnson, Councillor Ian Stokes, Councillor Sue Woolley and Vacancy (Alliance SK)

---

## Agenda

This meeting can be watched as a live stream, or at a later date, via the [SKDC YouTube Channel](#)

**1. Apologies for absence**

**2. Disclosure of interests**

Members are asked to disclose any interests in matters for consideration at the meeting.

**3. Minutes of the meeting held on 28 September 2022** (Pages 3 - 14)

**4. Updates from previous meeting** (Page 15)

To consider updates on Actions agreed at the meeting held on 28 September 2022.

**5. Internal Audit Progress Report** (Pages 17 - 25)

This report provides an update on progress against the internal audit plan and summarises the results of our work.

**6. External Audit Annual Governance Report** (To Follow)

Report outlining the key findings arising from the Statutory Audit of South Kesteven District Council.

---

Published and despatched by [democracy@southkesteven.gov.uk](mailto:democracy@southkesteven.gov.uk) on Tuesday 22 November 2022.

☎ 01476 406080

**Karen Bradford, Chief Executive**

[www.southkesteven.gov.uk](http://www.southkesteven.gov.uk)

**7. Treasury Management Mid-Year Report 2022-23**

(Pages 27 - 34)

This Council is required by regulations issued under the local Government Act 2003 to produce regular reports on treasury and debt management operations during the financial year. This report meets the requirements of the CIPFA code of practice on Treasury Management (the code).

**8. Statement of Accounts 2022 including the Annual Governance Statement**

(To Follow)

The Statement of Accounts 2021/22 is presented to the Governance and Audit Committee for approval. This report covers:

- Accounts and Audit (Amendment) Regulations 2021
- Accounts and Audit Regulations 2015
- Section 21(2) Local Government Act 2003
- Revised Statement of Accounts
- Commentary on the outcome of the audit of the Statement of Accounts

**9. Work Programme 2022- 2023**

(Pages 35 - 37)

To consider the Committee's Work Programme for 2022 – 2023.

**10. Any other business, which the chairman, by reasons of special circumstances, decides is urgent.**

## Meeting of the Governance and Audit Committee

Wednesday, 28 September 2022, 2.00 pm

Council Chamber – South Kesteven House,  
St Peter’s Hill, Grantham, NG31 6PZ



SOUTH  
KESTEVEN  
DISTRICT  
COUNCIL

---

### Committee Members present

Councillor Paul Wood (Chairman)  
Councillor Kaffy Rice-Oxley (Vice-Chairman)  
Councillor Ashley Baxter  
Councillor Richard Dixon-Warren  
Councillor Gloria Johnson  
Councillor Sue Woolley

### Cabinet Members

Councillor Adam Stokes, Deputy Leader of the Council and Cabinet Member for Finance and Leisure

### Officers

Alan Robinson (Deputy Chief Executive)  
Richard Wyles (Chief Finance Officer)  
Andrew Cotton (Director of Housing and Property)  
Alison Hall-Wright (Assistant Director of Finance)  
Tracey Elliott (Governance and Risk Officer)  
Phil Swinton (Health and Safety Manager)  
Sarah Downs (Democratic Officer)

### Assurance Lincolnshire Auditors

Alistair Simson  
Lucy Pledge

### Grant Thornton Auditors

Harkamal S Vaid  
Laurelin Griffiths

---

## 22. Apologies for absence

Apologies for absence were received from Councillors Ian Stokes and Linda Wootten.

### **23. Disclosure of interests**

No interests were disclosed.

### **24. Minutes of the meeting held on 20 July 2022**

A Member asked where the part of the External Audit Report that had been omitted in error from the agenda of the previous meeting, held on 20 July 2022, commenting that the omission had not been recorded in the minutes.

The Auditor representing Grant Thornton informed the Committee that this would be rectified.

The Chairman added that the minutes were not intended to be verbatim and he was of the opinion they were a correct record of the meeting.

The minutes of the meeting held on 20 July 2022 were proposed, seconded and AGREED as a correct record.

### **25. Updates from previous meeting**

The Chief Finance Officer informed the Committee that Minute 14 on the action sheet, referencing the repayment of money relating to the fuel theft, was in the hands of the Crown Prosecution Service for enforcement.

It was noted that Minute 17, the Scrutiny Review, had been added to the meeting agenda.

A Member requested confirmation of a meeting date for the Governance and Audit Committee Members to meet with the internal and external auditors. The Chairman informed that a meeting is to be arranged in the future but was as yet unconfirmed.

### **26. 2021-2022 External Audit Plan**

The External Audit Plan, presented by Grant Thornton auditors, provided an overview of the planned scope and timing of the statutory audit of the Council.

The Council was required to prepare group financial statements that consolidated the financial information of Gravitas Ltd and Leisure SK Ltd.

Special audit consideration was given to the following risks as they were the highest value estimates within the financial statements:

- Management over-ride of controls
- Valuation of land and buildings

- Valuation of the pension fund liability

The above risks were considered in all audits and not specific to South Kesteven District Council.

Materiality was determined at £1.25 million for the group audit and £1.2 million for the Council as thresholds for testing as part of the audit. It was considered that there were no significant risks identified within the group accounts.

The Audit was underway and expected to be signed off by the end of November 2022.

During discussion, Members raised the following points:

- Did the auditors have any further comment regarding the 'PPE Assets Held for Sale' of Gravitas Housing Ltd accounts and what level of investigation had taken place in scrutinising that part of the organisation?
- If Gravitas Housing Ltd and Leisure SK Ltd accounts were listed as being material to the accounts, why were Environment SK Ltd not listed in the same way?

The Auditor informed Members that the audit had not yet been completed and therefore at this point, they were limited in what they were able to say.

The Assistant Director of Finance confirmed that accounts were grouped where there were material levels of income. The majority of Environment SK Ltd's income came from the Council. As intergroup transactions were eliminated when grouping accounts, Environment SK Ltd accounts were not materially different to those of the Council.

It was proposed, seconded, and **AGREED:**

**That the Governance and Audit Committee accepted the External Audit Plan 2021-2022**

## **27. Internal Audit Progress Report**

Presented by Assurance Lincolnshire, the purpose of the Internal Audit Progress Report was to:

- Provide details of the audit work during the period April 2022 to September 2022
- Advise on progress of the 2022/23 plan

- Raise any other matters that may be relevant to the Governance and Audit Committee role.

The auditors had completed two assurance audits and had four audits scheduled in for future dates. The two audits which had been completed were:

- Good Governance Phase 1 and Decision Making - Substantial Assurance
- Risk Management - Substantial Assurance

The audits that were being carried out currently were:

- ICT Cyber Security (originally planned June/July and moved back at client's request) – Commenced 30th August
- Programme Management – Commenced 5th September
- Housing Void Management – Commencing 3rd October

Health and Safety was to be rescheduled to October. The vast majority of high and medium priority actions have been completed since the last audit and reasoning behind those yet to be completed were within the report. The Auditor informed the Committee that the Chartered Institute of Public Finance and Accountancy (CIPFA) would be issuing an updated Audit Committees Guide by the end of September 2022.

Members raised the following points during discussion:

- Acknowledgement of the Governance Team's hard work was given.
- Were many high assurance ratings given?
- The report referred to work to embed the discussion of risk in decision making – was there a timescale for this, including a change to the report template?
- What will be the format and scope of the second phase of the Governance review?
- The report referred to examples of good governance, including the consultation work with Deepings Leisure Centre. What was the evidence for this?
- The Food Waste trial was very popular with residents but not continued, why?
- The updating of the Constitution made the Council less transparent with access to public meetings more difficult.

- Housing Services had been through turmoil and was still in special measures with the housing regulator.
- What was the Council's Governance compared with?

The Auditor confirmed that actions were already in place. Discussion around Risk was ongoing since 31 August 2022 and a new report template was in place.

The Chief Finance Officer added that a further element was added to the report. There was now a requirement to consult with the Governance and Risk Officer to ensure any risks considered were independently verified and given more prominence within each report.

The Auditor informed the Committee that the second part of the Governance Review will look into the leadership and culture of the Council – how governance works in practice, as structures were already in place. It was made clear that work had been completed in the first phase on having an appropriate Constitution and no further comment could be made on the next phase at this time. There were to be workshops, engaging with both Officers and Councillors and this would likely start in the new year. The report, which compared the Council's Governance to a Local Government framework, looked into the structure for Governance and not into any detail as yet on specific consultations but will look closely at the process around the Deepings Leisure Centre and policy and process.

The Director of Housing and Property informed Members that there was an interplay between the Auditors and the Housing Regulators and the Council provided information to both.

The Chairman added that a consultation can be good within its process but that the outcome may not be popular, such as the budgetary restrictions that prevented the food waste trial from being expanded across the district.

Some Members disagreed that Housing Services were in turmoil. It was acknowledged that a lot of work had been completed to improve services and the Director of Housing and Property was thanked for his contribution.

The Deputy Chief Executive confirmed he was proud of the work that was put into the updated Constitution and that inconsistencies had been removed when appropriate changes were made.

It was proposed, seconded and **AGREED:**

**That the Governance and Audit Committee accepted the findings of the report.**

## **28. Annual Health and Safety, Emergency Planning and Business Continuity Report 2021-2022**

Presented by the Director of Housing and Property, the Health and Safety Annual Report 2021/22 demonstrated that the Council's health and safety performance had remained strong during this period. It was important that the Council continued to review, monitor and improve, wherever practical, its arrangements and practices. The Authority provided a varied range of services, some with inherently higher-risk activities and in challenging and changing environments.

The report detailed these arrangements along with annual performance and set out how the Council intended to move forward in the future. The annual report showed the Council's commitment to safety and the measures taken to protect the health and safety of all those who could be affected. Business Continuity and Emergency Planning were also included. There had been a reduction in the number of accidents from 2020/21 and this was detailed in the report. Whilst the focus was on reducing accidents, wherever possible, it was recognised that accidents were likely to happen in organisations of the size and nature of the Council and were broadly in line with neighbouring authorities. 'Near misses' were encouraged to be reported so lessons could be learnt for the future.

During discussion, Members noted the following points:

- Did the business continuity test, carried out in June 2022 stand the Council in good stead for learning for any future issues?
- Members welcomed the fall in the number of accidents reported in the last year. A further breakdown of the accident data for the Streetscene team was requested although it was acknowledged that the likelihood of accidents given the number of households involved in bin collections was a lot higher.
- It was recognised that Streetscene were unsurprisingly the service with the highest number of accidents.
- Did the report include any data from Environment SK Ltd?

The Health and Safety Manager confirmed that the test, ran in June 2022 gave the Council some insight into preparing for the future and gaining resilience in establishing back-up plans. Ultimately, assurance was established that services were fit for purpose in the event of a crisis. The Officer confirmed to Members that no report was requested for Environment SK Ltd.

### **ACTION 1:**

**That the Governance and Audit Committee receive a further breakdown of information on accidents within the Streetscene Team 2021-2022**

**AGREED:**

**That the Governance and Audit Committee noted the Health and Safety Annual Report for the period 2021/22.**

**29. Local Government and Social Care Ombudsman - Annual Review Letter 2022.**

This report sets out the content of the Ombudsman's Annual Review Letter for 2022 for South Kesteven District Council.

The Local Government and Social Care Ombudsman was responsible for investigating complaints about Councils, all adult social care providers and some other organisations providing local public services. The Ombudsman would expect a complainant to have gone through all of the stages of an organisation's own complaints process before receiving a complaint on any matter. Any complaint to the Ombudsman must be about something it has authority to investigate and in most cases a complainant should:

- Complain to the Ombudsman within 12 months of becoming aware of the matter
- Have been directly affected by the matter and suffered a 'personal injustice'

The Local Government and Social Care Ombudsman's Annual Review Letter covered a twelve-month period up to 31 March 2022. The Annual Review Letter focused on three key areas that help to assess the Council's commitment to put things right when they go wrong. These were:

- Complaints upheld
- Compliance with recommendations
- Satisfactory remedy provided by the Authority

Fifteen complaints were considered by the Ombudsman during the period of the Annual Review Letter. Of these fifteen complaints, the Annual Review Letter reported that for South Kesteven District Council:

- The Ombudsman carried out no detailed investigations during the period
- No recommendations were due for compliance in this period
- The Ombudsman did not uphold any detailed investigations during this period

During discussion, Members raised the following points:

- How can the Council be sure that complaints were being dealt with in a timely manner?
- It was noted that no detailed investigations had been carried out by the Ombudsman, as confirmed in the report.

The Deputy Chief Executive informed that complaints have to be received and considered by the Council first of all and any that are sent to the Ombudsman in the first instance, are redirected back to the Council. Some of the issues could be complex and far-reaching but correspondence to keep the complainant informed of what stage of the process the complaint had reached was regularly logged. The Officer continued that feedback was requested as it was very important to facilitate the improvement of services.

The Officer agreed that more specific details would be given to the Committee.

#### **ACTION 2:**

**That the Governance and Audit Committee receive further, specific information on the timescales for completion of complaints**

#### **AGREED:**

**That the Governance and Audit Committee noted the contents of the Local Government and Social Care Ombudsman's Annual Review Letter for 2022.**

### **30. Scrutiny Improvement Review - Centre for Governance and Scrutiny**

In 2021 the Council commissioned the Centre for Governance and Scrutiny to undertake an evaluation of its scrutiny function to check and test that scrutiny arrangements met the Council's high expectations of democratic accountability and that decision-making and scrutiny was transparent, effective and impactful.

The review consisted of two days of evidence gathering on-site through conversations with Members and Officers on 19 and 20 July 2021, as well as consideration of key documents and the observation of an Overview and Scrutiny Committee meeting.

The opening summary of findings from the review highlighted conditions for successful scrutiny were present at South Kesteven District Council with a clear commitment to scrutiny and the value it can bring, the benefits of which were recognised by Cabinet. The dedication of Members of Overview and Scrutiny Committees, positive examples of cross-party working, making a positive impact and wanting to improve outcomes was also emphasised.

The outcomes of the review were reported under the following themes, some of which included recommendations for further consideration which the Panel feel

would assist scrutiny in being more effective in how it works and the contribution it makes:

- Conditions for success
- Organisation and Officer support
- Clarity and scrutiny's role and responsibilities
- Collaborative approach to scrutiny
- Scrutiny's focus and work programme
- Committee structure
- Chairing and meeting preparation
- Member development
- External engagement

In considering the recommendations of the review, an action plan had been developed by the Cabinet Member for Corporate Governance and Licensing.

Members raised the following points during discussion:

- How did the recommendations translate to the action plan?
- The review has taken too long to come to a public meeting
- Who would be considering the advice given, in particular the governance and scrutiny?
- The delay brought transparency, openness and scrutiny of the Council into question.
- Will there be a change in process of how the Chairman and Vice-Chairman of each Committee were elected as recommended?
- The process did not involve an adequate level of consultation or clarification on timings for the action plan
- Why did the report only outline the positives? Scrutiny should involve an equal voice for all, including the general public.
- A Member suggested that the actions could be measurable as SMART targets and should reflect the report.

The Deputy Chief Executive informed the Committee that the 'next steps' identified in the action plan came from the advice given by the Centre for Governance and Scrutiny. The suggestions were broad, not specific and it was down to the Council to decide how to act. It was recognised that there was still work to do and Members and Officers have worked alongside each other to achieve a plan.

The Officer continued that changes to any committee are constitutional and will go to the Constitution Committee. The Companies Committee proposed changes would be heard by Governance and Audit Committee before ultimately being heard at Full Council.

The Chairman disagreed that scrutiny and consultation was not welcomed within the process of the review and confirmed meetings had been held throughout the process.

The Deputy Chief Executive added that everyone had an opportunity to meet with Officers and Councillor Linda Wooten as the Cabinet Member for Corporate Governance. There were workshops held for discussion and feedback was important. The consultation process was yet to be completed.

The Chairman welcomed the report and acknowledged that the Council were at the start of the process. It was suggested that a workshop for Members be arranged before a future Governance and Audit Committee hears a more detailed action plan. Members agreed with this.

### **ACTION 3:**

**That a public workshop for Members is arranged to agree action plans and targets in further detail.**

It was proposed, seconded, and **AGREED:**

**That the Governance and Audit Committee noted the Scrutiny Improvement Review Action Plan.**

## **31. Strategic Risk Register**

One of the key areas for Governance and Audit Committee, as part of its terms of reference, was to monitor and review the risk management arrangements in place and the activities that were being undertaken to mitigate those risks. The Strategic Risk Register was to be presented to Committee twice a year and was last reviewed at the 20 April 2022 meeting.

The Chief Finance Officer informed Members that the Strategic Risk Register was to reflect the current and changing environment of the Council from both internal and external influences. The format of the Register consists of the following:

- Risk Title and Description – brief description of risk

- Effects of Risk Realisation – what would occur should the risk materialise
- Current Circumstances – summary of the present situation
- Risk Controls – summary of all the risk controls that are currently in place
- Residual Risk Score – assessment of risk after risk controls considered
- Actions – list of actions being undertaken along with a progress update

The Chief Finance Officer informed the Committee that the report was written before the recent Public Services network outage and that the Council was reflecting on these circumstances to ensure services are as resilient as possible and protected from external influences.

During discussion, Members raised the following points:

- The report was welcomed.
- What was the timescale for the appointment of a consultant to develop a cultural strategy?
- Why was there no mention of the Deepings Leisure Centre as a risk?
- Were inflationary pressures and energy costs not a risk?

The Chief Finance Officer confirmed that the Culture and Visitor Economy Overview and Scrutiny Committee was overseeing the development of a Cultural Strategy. The delivery of the Deepings Leisure Centre refurbishment was project specific and would not therefore be considered a strategic risk.

It was proposed, seconded and **AGREED**:

**That the Committee noted the progress made of the actions of the strategic risks and identified any areas of feedback.**

### **32. Work Programme 2022 - 2023**

The Work Programme was discussed and the following points raised:

- The Scrutiny Review was to come back to Governance and Audit Committee at a future date.
- A meeting between Members of the Committee and Auditors was to be added to the Work Programme as an item to be allocated.

**33. Any other business, which the chairman, by reasons of special circumstances, decides is urgent.**

There was no other business.

**34. Close of Meeting**

The meeting closed at 15:50.

# Action Sheet

To provide members with an update on actions agreed at the 28 September 2022 meeting of the Governance and Audit Committee.

Min no.	Agenda Item	Action(s)	Assigned to	Comments/status	Deadline
28	Annual Health & Safety, Emergency Planning Report 2021/22	That the Committee receive a further breakdown of information on accidents within the Streetscene team from 2021/22	Phil Swinton (Health and Safety Manager)	Information to be shared with Members once available	28 November 2022.  COMPLETE
29	Local Government and Social Care Ombudsman Annual Review Letter 2022	That the Committee receive further, more specific information on the timescales for completion of complaints.	Deputy Chief Executive	Information to be shared at next meeting	28 November 2022.
30	Short Scrutiny Improvement Review	That a public workshop for Committee Members is arranged to agree action plan and targets in further detail	Deputy Chief Executive and Assistant Director of Governance	Workshop provisionally booked on 30 November subject to Members availability	Update to be provided at 28 November meeting

This page is intentionally left blank

# Internal Audit Progress Report



**South Kesteven  
District Council  
30 November 2022**

# Contents

## Key Messages

Page 1

---

Assurances Given  
Draft reports  
Progress & Delivery

## Internal Audit work completed

Page 2

---

Overview of Assurances

## Internal Audit Plan – 2023/24

Page 3

---

Consultation with the Governance & Audit Committee

## Other Matters of Interest

Page 4

---

CIPFA – Practical Guidance for Audit Committees  
CIPFA – Internal Audit Untapped Potential

## Appendices

Page 5

---

1 - Assurance Definitions  
2 - Internal Audit Plan 2021/22 – Progress to Date

**Lucy Pledge** – Head of Internal Audit & Risk Management  
[lucy.pledge@lincolnshire.gov.uk](mailto:lucy.pledge@lincolnshire.gov.uk)

**Alastair Simson** – Principal Auditor  
[alastair.simson@lincolnshire.gov.uk](mailto:alastair.simson@lincolnshire.gov.uk)

---

This report has been prepared solely for the use of Members and Management of **South Kesteven District Council**. Details may be made available to specified external organisations, including external auditors, but otherwise the report should not be used or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

The matters raised in this report are only those that came to our attention during the course of our work – there may be weaknesses in governance, risk management and the system of internal control that we are not aware of because they did not form part of our work programme, were excluded from the scope of individual audit engagements or were not brought to our attention. The opinion is based solely the work undertaken as part of the agreed internal audit plan.

# Introduction

The purpose of this report is to:

- Provide details of the audit work during the period October 2022 to 15<sup>th</sup> November 2022
- Advise on progress of the 2022/23 plan
- Raise any other matters that may be relevant to the Audit Committee role

## Key Messages

### Assurances

Since the last progress report in September, we have completed one audit – Cyber Security Phase 1. This received a **substantial assurance** opinion – some improvement needed in the application of controls but overall, they are adequate, appropriate and operating sufficiently so that risks to the activity are medium / low. More information for the outcome of this report is provided on the next page.

### Reports at Draft

- Programme management
- Housing void management

### Progress and Delivery

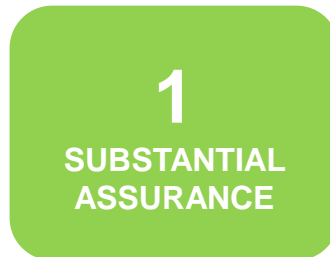
The delivery of the plan is on track and all audits are scheduled. Our key focus over the next five months include:

- Health & Safety
- Key control testing (Debtors – Creditors – Capital Programme)
- Combined Assurance (addition to the plan)

The following audits have been re-scheduled to April – June 2023 to ensure we add most value:

- Housing Income – new system currently being implemented
- HRA building programme – programme not started

A complete schedule of planned audits and current position is included as Appendix 2.



# Substantial Assurance

Cyber security comprises of technologies, processes and controls that are designed to protect systems, networks and data from cyber-attacks.

A substantial audit opinion has been given for the first phase of the Cyber Security review.

Our review benchmarked the Council's arrangements against best practice (UK's National Cyber Security Centre) which help assess the overall cyber security position of the Council. This first phase focussed on:

- Governance and Risk Management
- Engagement and Training
- Asset Management
- Architecture and Configuration
- Vulnerability Management

Our overall assurance opinion is informed using what is termed a "defence-in-depth" approach. This approach to cyber security acknowledges the use of multiple layers of controls to protect the Council from successful attacks.

Our recommended improvements extend beyond the ICT service given the importance of having a strong cyber awareness culture across the Council. These include:

- Software version management
- Promoting and embedding the Senior Information Risk Officer role
- Updating existing policies and procedures – including patch management
- Providing training to staff and councillors on cyber risks – including remote working
- Improving ICT performance reporting

## **Management Response**

The proposed action plan has been developed to strengthen the Council's cyber defences and responds to the improvement areas identified by internal audit.

Resources have been allocated to deliver the actions and good progress is being made. Management is confident the actions will have been delivered in the agreed timescales.

## **Agreed Management Actions**

High priority action to be implemented by December 2022, Medium priority actions to be implemented between October 2022 to May 2023. These will be followed up in Phase Two as part of our 2023/24 plan.

## Cyber Security – Phase One



# Internal Audit Plan – 2023/24

We aim to provide as complete a picture as possible of our clients' assurance on critical systems and the key risks they face – supporting the delivery of client business plans, objectives and priorities.

## Consulting the Governance & Audit Committee

We are about to commence developing the Internal Audit Plan – 2023/24.

To help inform our plan we would like to engage with the Governance and Audit Committee early in the process. This helps us identify any **significant** areas of risk and / or concern Committee wish to be considered.

## Our approach

Understanding the Council's business, risk profile and assurance framework is vital in our planning process. We aim to align our work with other assurance functions, particularly performance and risk management, and look at different ways of leveraging assurance to maximise the best use of the Internal Audit resource and other assurance functions of the Council.

At the heart of the strategy is the Council's 'Assurance Map'. This helps focus our work plans on risks that matter – the make-or-break risks that affect the successful delivery of services and strategic objectives. It also recognises the importance of critical business systems that support successful delivery and 'protect the business' – core activities.

There also needs to be sufficient coverage so the Head of Internal Audit can provide their statutory opinion.

We are about to start working with management to develop the Council's assurance map.

## Potential Areas

There are some areas that we have already identified to be considered:

- Cyber Security – Phase Two
- Housing Income
- HRA Building Programme
- Combined Assurance Status Report – 2024

Key sources of information that help to inform the plan:



- Financial Governance – Providing assurance that key financial controls are in place and operating effectively
- Governance & Risk – Providing assurance that key governance controls are in place and operating effectively
- Project Assurance – Providing assurance on a key project and the successful delivery (on-time – within budget – deliverables achieved and benefits realised)



# Other Matters of Interest

A summary of matters that will be of particular interest to Audit Committee Members

## **CIPFA Guidance for Audit Committees – updated October 2022**

This fully revised and updated edition takes into account recent legislative changes and professional developments and supports the 2022 CIPFA Position Statement.

It includes additional guidance and resources to support audit committee members, and those working with and supporting the committee's development.

The training on the 30<sup>th</sup> November 2022 will provide the Committee with the key headlines of the guidance and benchmark current arrangements with this new best practice guidance.

<https://www.cipfa.org/services/support-for-audit-committees>

## **CIPFA - Internal Audit Untapped Potential – published May 2022**

CIPFA advocates best practice in assurance, governance, management and financial control across the public services. Internal audit has the potential to help organisations achieve their goals, but this potential may not be currently realised. This report, and the research that has been conducted to create it, explores the changing landscape of internal audit in the public services and how vital it is for an organisation in terms of its future success.

CIPFA intention with this report is to open a dialogue across public service organisations, the internal audit profession, audit committees, as well as those considering a career in internal audit. Internal audit is an important part of the solution for effective management of the public services, and CIPFA hope to facilitate change that will see greater independence of internal audit, sustainability of recruitment into the role and an increased understanding of assurance.

This report makes several recommendations. Some are directed at the internal audit teams working within and for the public services. Others are directed at the client organisations, both management and audit committees. There are areas of planned work that CIPFA will be taking forward, some in collaboration with the Chartered Institute of Internal Auditors (CIIA) and the Internal Audit Standards Advisory Board (IASAB).

We suggest that it would be good to explore the content of this report with the Audit Committee as part of its training and development plan – gaining greater insight into the Role and Impact of Internal Audit in the Council.

<https://www.cipfa.org/services/networks/better-governance-forum/internal-audit-documentation/internal-audit-untapped-potential>

**High**

Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance.

The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.

**Substantial**

Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance.

There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low.

**Limited**

Our critical review or assessment on the activity gives us a limited level of confidence on service delivery arrangements, management of risks, and operation of controls and/or performance.

The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives.

**Low**

Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance.

There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore the risk of the activity not achieving its objectives is high.

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
<b>Good Governance Phase 1 and Decision making</b>	To provide assurance that the Council has a robust Governance Framework in place that aligns to best practice (CIPFA / SOLACE 'Delivering good Governance in local government' – issued 2016. Benchmarking against the 7 good governance principles and the principles and the Governance Risk Resilience Framework – issued by the Centre for Governance & Scrutiny – issued 2021.	22/06/22	22/06//22	08/09/22	Substantial Assurance
<b>Risk Management</b>	To review the effectiveness of the risk management arrangements including: <ul style="list-style-type: none"> <li>• Leadership &amp; Management</li> <li>• Strategy and Policy</li> <li>• People – Risk Culture</li> <li>• Processes</li> <li>• Risk Handling &amp; Assurance</li> <li>• Outcomes &amp; Delivery</li> <li>• Using risk maturity model</li> </ul>	04/07/22	04/07/22	08/08/22	Substantial Assurance
<b>Cyber Security</b>	The National Cyber Security Centre (NCSC) has identified 10 steps for cyber security to help organisations manage cyber risks. The review will cover these 10 steps with a view to confirming that appropriate consideration has been given to these areas.	31/08/22	31/08/22	14/11/22	Substantial Assurance
<b>Health and Safety</b>	To review the effectiveness of the Council's health and safety arrangements including: <ul style="list-style-type: none"> <li>• Governance &amp; Oversight</li> <li>• Compliance</li> <li>• Processes</li> <li>• Risk Assessment and Assurance</li> <li>• Reporting and monitoring</li> <li>• Measuring performance</li> </ul>	19/09/22	21/10/22		Fieldwork
<b>Housing Void Management</b>	Review of the governance and procedures in place to monitor, manage and report housing voids	10/10/22	11/10/22		Fieldwork complete – drafting report

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
Programme Management	Review of the programme and project management procedures in place to provide management with assurance that a robust and consistent approach is being followed. This will be an advisory review.	05/09/22	05/09/22		Fieldwork complete – drafting report
Housing Income Management	Review of the governance and procedures in place to monitor, manage and report housing income.	Moved to April – June 2023			
HRA Building Programme	Assurance over the Housing Revenue Account building programme processes and procedures.	Moved to April – June 2023			
Key Control Testing	<p>Delivery of key control testing to enable Head of Internal Audit to form an opinion on the Council's financial control environment.</p> <p>Terms of Reference which include scope and focus on key risks will be determined with the appropriate senior manager.</p>	15/02/23			Not Started
Follow Ups	To provide management with assurance that actions from previous key audits have been implemented and this has led to improved outcomes.	01/02/23			Tracked with mgt quarterly – follow up low / limited assurance opinion / high priority actions
Combined Assurance	Working with management we co-ordinate the levels of assurance across the Council's critical activities, key risks, projects and partnerships – producing a Combined Assurance Status report in February / March 2023.	14/12/22			Planning

This page is intentionally left blank



SOUTH  
KESTEVEN  
DISTRICT  
COUNCIL



## Governance and Audit Committee

Date 30 November 2022

Report of Councillor Adam Stokes,  
Deputy Leader of the Council

## 2022-23 Treasury Management Activity Mid-Year Review

### Report Author

Alison Hall-Wright, Assistant Director of Finance



[Alison.hall-wright@southkesteven.gov.uk](mailto:Alison.hall-wright@southkesteven.gov.uk)

### Purpose of Report

This Council is required by regulations issued under the local Government Act 2003 to produce regular reports on treasury and debt management operations during the financial year. This report meets the requirements of the CIPFA Code of Practice on Treasury Management (the Code).

### Recommendations

#### That the Committee:

1. Notes and approve the contents of the mid-year review of treasury management activity for 2022-2023.
2. Agrees to propose an inclusion of an amended ethical statement in the 2023/24 Treasury Management Strategy.

## Decision Information

Does the report contain any exempt or confidential information not for publication?	No
What are the relevant corporate priorities?	High performing Council
Which wards are impacted?	All

## 1. Implications

Taking into consideration implications relating to finance and procurement, legal and governance, risk and mitigation, health and safety, diversity and inclusion, safeguarding, staffing, community safety, mental health and wellbeing and the impact on the Council's declaration of a climate change emergency, the following implications have been identified:

### ***Finance and Procurement***

1.1 The financial implications are included throughout this report.

Completed by: Alison Hall-Wright, Assistant Director of Finance

### ***Legal and Governance***

1.2 This report provides details of the Council's performance in respect of Treasury management against policy set out as part of the budget and Policy Framework. Members should note the performance and scrutinise any elements to assist the role of the Governance and Audit Committee in its review of the Treasury Management Strategy.

Completed by: Graham Watts, Assistant Director of Governance and Deputy Monitoring Officer

### ***Risk and Mitigation***

2.3 Risk has been considered as part of this report. The treasury strategy has been compiled in conjunction with the Council's treasury advisors and is monitored by the committee on a regular basis.

Completed by: Tracey Elliott, Governance and Risk Officer

## **2. Background to the Report**

- 2.1 Treasury Management is the term used to cover the Council's borrowing and investment strategies. The Council has formally adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy (CIPFA) code of practice on treasury management (revised 2017). In line with the code the council has adopted a treasury management policy statement that requires regular reports on treasury and debt management operations during the financial year.
- 2.2 Additionally, under part 1 of the Local Government Act 2003, the Council is required to have regard to the Prudential Code for capital finance including the setting of Prudential Indicators. Relevant treasury management indicators were incorporated into the Treasury Management Strategy 2022-23 approved by Council on 3 March 2022.
- 2.3 This report is submitted in accordance with these requirements and provides a review of treasury management for the period ended 30 September 2022 and reviews current developments. The following elements are covered by the report:
- A review of debt management operations
  - A review of investment operations
  - An update on the treasury management Prudential Code Indicators
  - An economic update for the first part of the 2022/23 financial year
- 2.4 The CIPFA Treasury Management panel promotes the view that Council's monitor performance at least half yearly. In addition to this, a report by the audit commission entitles 'Risk and Return' identifies the need for local authorities to report regularly to members in addition to the annual review.

## **3. Treasury Management Update**

### **Debt Management Operations – Borrowing**

- 3.1 No additional borrowing was required during the first half of 2022/23. All current Council borrowing is with the Public Works Loan Board (PWLB) and the average rate of interest paid on the debt portfolio was 2.47%. Appendix A shows loans outstanding as at 30 September 2022. Regular reviews are undertaken to consider redemption costs of natural maturity against new borrowing to settle the outstanding debt early.
- 3.2 As at 30 September 2022, the council had short-term borrowing, which is defined as borrowing due to be repaid within 365 days, of £3.221m. This will be repaid in instalments of £1.611m on 28 March 2023 and 28 September 2023. The average annual rate of interest on these loan repayments is 3.03%.

### **Investment Operations**

- 3.3 The average size of the investment portfolio for the 6-month period was £90.729m compared to an average portfolio size of £83.608m during the same period in 2021/22.
- 3.4 The increase in the portfolio is due to the re-profiling of the Capital programme and an influx of government grants.

### **Investment Activity in the period ended 30 September 2022**

- 3.5 The Council operates a diverse portfolio and uses a number of methods to invest its reserves which include direct deposit, certificates of deposit, notice accounts and money market funds. As at 30 September 2022 the Council held short term investments of £77.424m (specified investments) and £5m(non-specified investments). As at 30 September the Weighted Average Rate of Return was 2.17% compared with that of the Link (the Council's treasury management advisors) Investment Benchmarking Analysis group which was 1.76%.
- 3.6 The Treasury Management Strategy stipulates that the Council should not ordinarily hold more than 35% of investments as non-specified and this was adhered to during the first half of 2022/23. A schedule of investments at 30 September 2022 is set out at Appendix A.
- 3.7 Short Term Fixed Deposits – In the period ended 30 September 2022, £53.0m of short-term fixed deposits were placed; £64.0m of investments matured within this same period.
- 3.8 Long Term Fixed Deposits – In the period ended 30 September 2022, there were no long-term fixed deposits placed and no long-term fixed deposits matured.

### **Treasury Management Prudential Code Indicators**

- 3.9 Prudential Code indicators specific to treasury management are designed to ensure that treasury management is carried out in accordance with professional practice. Indicators for 2022/23, 2023/24 and 2024/25 were approved by Council on 3 March 2022 as part of the Treasury management Strategy 2022/23.
- 3.10 The 2022/23 indicators and actual figures for the 6 months to 30 September 2022 are set out at Appendix A. All investment activity has been maintained within the indicator limits.

### **Economic Update from Link (the Council's Treasury Advisors)**

- 3.11 The Bank of England's Monetary Policy Committee raised base rate by 50 bps to 2.25% in September 2022 meeting, this was the 7th consecutive rate hike, and increased borrowing costs to the highest since 2008. The Growth from Knowledge (GfK) Consumer Confidence indicator fell to -49 in September from -44 in August which is a new record low as British households continue to struggle with the cost-of-living crisis and wider economic uncertainties. This is evidently shown in retail sales which reduced by 1.6% in August, the biggest decline so far this year, following a 0.4% rise in July. In August 2022 initial estimates show that the public

sector spent more than it received in taxes and other income. This resulted in 11.8 billion of borrowing, which was £5.8 billion more than the £6.0 billion forecast by the Office for Budget Responsibility (OBR). Both Link Group and Capital Economics now expect rates to peak at 5.00% by Q1 2023.

### **Ethical Investments**

3.12 The Council's Treasury Management Strategy has the following approved ethical investment statement:

"The Council, in making investments through its treasury management function full supports the ethos of socially responsible investments".

The availability of these types of investments is limited although the Council is currently placing £11m (over 12% of the total available investments) invested in the Standard Chartered Sustainable Fund which has an underlying commitment to support activities that provide sustainable and environmentally friendly services and products.

Ethical banks are ordinarily either unrated or below the acceptable level of risk which would breach statutory guidance as the Council's primary consideration when placing investments is security followed by liquidity and the yield. If ethical banks did have acceptable ratings with the major credit rating organisations the Council could choose to invest although the returns may be lower which would impact on investment income.

Adopting an ethical statement would limit the availability of counterparties to place future investments with as information is not readily available regarding where institutions place their investments which could lead to the Council breaching its ethical statement.

However It is proposed that the following ethical statement is included in the proposed 2023/24 Treasury Management Strategy.

Investment guidance, both statutory and from CIPFA makes clear that all investing must adopt the key Treasury Management principles of security, liquidity and yield (SLY) in this order of priority. The Council is however committed to Environmental, Social and Governance (ESG) factors. Through our Treasury Management Strategy, in terms of ESG investment considerations, ESG metrics, will be used where appropriate and available in the credit rating agency assessments when considering investment opportunities.

Typical areas of consideration include:

- (i) Environmental: Emissions and air quality, energy and waste management, waste and hazardous material, exposure to environmental impact.
- (ii) Social: Human rights, community relations, customer welfare, labour relations, employee wellbeing, exposure to social impacts.
- (iii) Governance: Management structure, governance structure, group structure, financial transparency.

This proposed amendment has been compiled in conjunction with the Council's treasury management advisors and will be reviewed annually as part of the Treasury Management Strategy.

### **3. Amendments to the Treasury Management Strategy 2022-23**

- 3.1 There are no mid-year policy changes recommended; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

### **4. Key Considerations**

- 4.1 These are considered throughout the report.

### **5. Other Options Considered**

- 5.1 None.

### **6. Reasons for the Recommendations**

- 6.1 Committee members should be kept updated on the financial position of the authority.

### **7. Background Papers**

- 7.1 Treasury Management Strategy 2022-23

<http://modern.gov.southkesteven.gov.uk/documents/s32638/Appendix%20G%20-%202022-23%20Treasury%20Management%20Strategy%20Statement.pdf>

### **8. Appendices**

- 8.1 Appendix A – Treasury Management Prudential Indicators

### **Debt Maturity Analysis – Public Works Loan Board as at 30 September 2022**

All current external borrowing is classified under the HRA

<b>Duration</b>	<b>Amount £000</b>
Less than one year	3,222
Between one and two years	3,222
Between two and five years	9,665
Between five and ten years	16,109
Between ten and fifteen years	41,109
Over fifteen years	14,498
<b>Total</b>	<b>87,825</b>

### **Investment Maturity Analysis – Schedule of Cash Funds**

	<b>As at 30 September 2022 £000</b>	<b>Interest Rate %</b>
<b><u>Short Term Investments</u></b>		
Aberdeen Standard MMF	5,000	variable
BNP Paribas MMF	3,041	variable
PSDF MMF	5,000	variable
Federated Prime3 MMF	5,000	variable
Insight MMF	383	variable
Invesco MMF	5,000	variable
Standard Chartered - Sustainable	6,000	2.27
HELABA	4,000	4.15
Goldman Sachs	3,000	2.06
Sumitomo MBC	6,000	1.86
Qatar National Bank	10,000	2.72
Lloyds	15,000	2.35
Close Brothers	7,000	1.77
Al Rayan Bank	3,000	2.15
<b>Total Short-Term</b>	<b>77,424</b>	<b>(average rate) 1.86</b>
<b><u>Long Term Investments</u></b>		
CCLA Local Authority Property Fund	3,000	2.85
Cambridgeshire County Council	2,000	1.00

<b>Total Long-Term</b>	<b>5,000</b>	<b>(average rate) 2.79</b>
------------------------	--------------	--------------------------------

Treasury management Indicators – Comparison for 2022/23 to actual position for the 6 months to 30 September 2022.

### External Debt Indicators

#### **Authorised Limit**

This represents the limit beyond which borrowing is prohibited and needs to be set and revised by members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3(1) of the Local Government Act 2003.

<b>Authorised Limit For external debt</b>	<b>2022/23 £000</b>	<b>As at September 2022 £000</b>
Debt (non HRA)	43.000	0.000
HRA Reform	115.000	87.825
Other Long-term liabilities	0.000	0.000
<b>Total</b>	<b>158.000</b>	<b>87.825</b>

#### **Operational Boundary**

This indicator is based on the probable external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short times during the year. It should act as an indicator to ensure the authorised limit is not breached.

<b>Operational Limit for external debt</b>	<b>2022-23 £000</b>	<b>As at 30 September 2022 £000</b>
Debt (non HRA)	25.000	0.0000
HRA Reform	100.000	87.825
Other Long-term liabilities	0.000	0.000
<b>Total</b>	<b>125.000</b>	<b>87.825</b>

## Governance and Audit Committee Work Plan 2022-23

Committee Membership: 7

Chairman: Councillor Paul Wood

Vice-Chairman: Councillor Kaffy Rice-Oxley

Item	Current Issues/Status	Outcome Sought
	<b>30 November 2022</b>	
External Audit Annual Governance Report	Report outlining the key findings arising from the statutory audit of South Kesteven District Council.	To review and note the contents of the report.
Statement of Accounts 2022 including the Annual Governance Statement	The Statement of Accounts, including the Annual Governance Statement, must be approved each year by the statutory deadline.	To approve the 2021/22 Statement of Accounts and their publication on the Council's website.
Treasury Management Mid-Year Review	Update on treasury and debt management operations during the financial year.	To review and note the contents of the Mid-year review.
Internal Audit Progress Report	Update from the Council's Internal Auditors	To review and note the contents of the report.
	<b>14 December 2022</b>	
Scrutiny Review Update	Report summarising the key findings from the scrutiny review.	To review and note the contents of the report.
Indicative Internal Audit Plan 2023/24	Internal Audit to present the indicative Internal Audit Plan for 2023/24.	To review and note contents of plan for 2023/24.
Treasury Management Strategy	To approve the Treasury Management Strategy 2022/23.	To review and note the contents of the Strategy.
Safeguarding Annual Report 2021/22	An overview of the Council's involvement in the safeguarding of children, young people and vulnerable adults for 2021/22.	To review and note the contents of the report.

35

Agenda Item 9

Item	Current Issues/Status	Outcome Sought
Review of Effectiveness and Terms of Reference	Biennial review of the Committee's Terms of Reference	To consider the Committee's work over the previous two municipal years and suggest changes to the Terms of Reference if necessary.
<b>15 March 2023</b>		
Internal Audit Plan 2023/24	Internal Audit to present Audit Plan for 2023/24.	To review and note the contents of the plan.
Internal Audit Progress Report	Update from the Council's Internal Auditors.	To review and note the contents of the progress report.
External Audit Annual Report on Grants and Returns	Report providing details on the Housing Benefit Subsidy claim.	To review and note the contents of the report.
Strategic Risk Register	The Strategic Risk Register is presented to the Committee twice a year as part of the monitoring and review of the risk management arrangements.	To review and consider approving the Strategic Risk Register.
Statement of Accounting Policies	Annual report prior to the preparation of the Statement of Accounts to ensure that the policies are up to date and in line with the CIPFA Code of Practice.	To consider approving the Statement of Accounting Policies.
<b>Items to be allocated as and when required</b>		
Financial Regulations		
Code of Corporate Governance		
Code of Conduct		
Contract Procedure Rules		
Risk Management Framework		

Item	Current Issues/Status	Outcome Sought
Committee Members Meeting with Auditors		
Counter Fraud Framework		

This page is intentionally left blank