

Meeting of the Governance and Audit Committee

Wednesday, 19 June 2024, 10.00
am



SOUTH
KESTEVEN
DISTRICT
COUNCIL

Committee Members present

Councillor Tim Harrison (Chairman)
Councillor Helen Crawford (Vice-Chairman)
Councillor Bridget Ley
Councillor Paul Stokes
Councillor Mark Whittington
Councillor Sue Woolley

Cabinet Members

Leader of the Council, Councillor Ashley Baxter
Cabinet Member for Corporate Governance and Licensing, Councillor Philip Knowles

Officers

Richard Wyles, Deputy Chief Executive, Section 151 Officer
Alison Hall-Wright, Director of Housing
Graham Watts, Assistant Director (Governance and Protection) and Monitoring Officer
Paul Sutton, Interim Head of Finance, Deputy 151 Officer
Tracey Elliot, Governance and Risk Officer
Debbie Roberts, Head of Performance, Projects and Climate Change
Charles James, Policy Officer
Lucy Bonshor, Democratic Officer

1. Apologies for absence

Apologies for absence were received from Councillors Rob Shorrocks and Councillor Peter Stephens. Councillor Charmaine Morgan had been ill and was not in attendance and sent her apologies after the meeting.

2. Disclosure of interests

No interests were disclosed.

3. Minutes of previous meetings

The Chairman informed the Committee that all three sets of minutes both public and exempt for 24 January 2024, 13 March 2024 and the extraordinary meeting on 26 April 2024 would be taken en-bloc. The minutes were proposed, seconded and **AGREED**.

4. Updates from previous meeting

All actions were complete other than the Strategic Risk Register item which was ongoing.

5. Internal Audit Annual Report 2023-2024

The Deputy Chief Executive, Section 151 Officer presented the report on behalf of RSM, the outgoing Internal Auditors who had sent their apologies as there were unable to attend. The report provided the annual internal audit opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the Council's risk management, control and governance processes which the Committee needed to consider.

The Deputy Chief Executive, Section 151 Officer referred the Committee to page 12 (page 46 of the agenda pack) which listed some audits that had been undertaken, but had yet to be reported to the Committee and these were:

- Responsive Repairs
- Payroll
- Purchasing and Creditors
- Section 106 Agreements

Also follow up work that had been undertaken in respect of previous audits.

RSM's Head of Internal Audit's opinion for South Kesteven District Council was that the Council had an adequate and effective framework for risk management, governance and internal control.

Thirteen audits had been undertaken since RSM had taken over as the Council's Auditors since work started in October 2023 and they had delivered their audit plan and met all their own KPI targets. A follow up audit had taken place and progress had been made with previously agreed targets.

In respect of the five audits that had taken place since the last meeting of the Committee the following assurances had been given:

Responsive Repairs – Partial Assurance
Payroll – Reasonable Assurance
Purchasing and Creditors – Substantial Assurance
Section 106 Agreements – Reasonable Assurance

Also the follow up work had been given reasonable progress.

The recommendations and actions agreed had ranged from high to low and these would be progressed with the new internal auditors BDO who were present at the meeting. Details in respect of the five audits that had been undertaken since the last meeting were noted within the report.

A question was asked in respect of Cyber Security and its priority level to which the Deputy Chief Executive, Section 151 Officer responded that the Council had received a grant from central Government to accelerate a cybersecurity action plan. The plan had been delivered within the required timeframe and had received a high assurance level. The cybersecurity work that had been undertaken had received a “clean bill of health” from the Government following the implementation of the agreed action plan. There was currently one outstanding action and it was hoped that it would be completed before the end of July 2024.

Further questions were asked in respect of the audit on Debtors and Debt Recovery and concerns regarding the consistency of controls not being adhered to.

The Deputy Chief Executive, Section 151 Officer referred to the last meeting of the Committee at which the debtors audit findings had been received. He reassured the Member that only five low recommendations had been given in respect of the debtor audit, no medium or high recommendations had been made. The debtor audit had been one of the audits undertaken by the previous auditors. The most recent debtor audit had taken place in March 2024 and a real step-change of improvements had taken place. Some of the previous problems had been due to limitations within the existing financial system and currently a new system was being progressed which would strengthen some of the weak areas highlighted. It had been accepted that there were some control limitations due to inherent weaknesses within the old system. Controls had been strengthened and when the new financial system came on line, the legacy issues would become irrelevant. It was accepted that the current scenario with debtors was not perfect, but this would improve once the new financial system was in place.

The Director of Housing then confirmed that there was a separation of duties between HR and Payroll. When the audit had been started three new starter forms couldn't be located and it was how these could be checked on the system when the information had not been retained. The details of new starters were inputted by HR and then passed on to Payroll who checked the information given. A further check was also carried out to make sure the information was correct. Going forward all paperwork would be retained after it had been entered within the system.

Reference was then made to management action 2, that related to the time that contract change forms had been signed, it was the sequencing of the approval, Manager sign off, to HR then to Payroll, rather than paperwork not being retained. She assured the Committee that there was a clear separation of duty between HR and Payroll.

A further comment was made in respect of Responsive Repairs and the partial assurance given. The Member felt that the same reports seemed to come through time and again and he wondered whether it was time that the system was reviewed by management to see if there was another way of doing things and a report presented to the Committee.

The Director of Housing reassured the Committee that all open responsive repair jobs were being reviewed. A number of the jobs were open as they had a suspended category and these were being looked at to see which jobs had been completed and could be closed down on the system. Customers were being contacted to see if work had been completed or not if it was not clear on the system. Appointments could be made and a plan put in place once all the outstanding repairs were known. The materials contract was monitored on a monthly basis by an officer at Turnpike and any anomalies were highlighted with relevant individuals. All actions were being worked through to ensure that they were all completed. Repairs performance would be part of the KPI suite that would go before the Housing Overview and Scrutiny Committee in the coming year.

It was stated that as the Director of Housing was new to the role that the Committee would wait on requesting a report in respect of Responsive Repairs.

The Deputy Chief Executive, Section 151 Officer requested that the Committee accepted the Internal Audit Annual Report 2023-24. It was proposed, seconded and **AGREED** to accept the Internal Audit Annual Report 2023-24.

Decision

That the Governance and Audit Committee accept the Internal Audit Annual Report 2023-24 from RSM.

6. Draft Internal Audit Annual Plan and Three Year Strategic Plan (2024-2027)

The new Head of Internal Audit, Gurpreet Dulay from BDO introduced himself to the Committee and gave a brief background about BDO which was the fifth largest accounting firm in the UK. Mr Dulay led a dedicated public sector internal audit team; he had worked within the public sector for 17 years which also included working with the NHS and Government Departments. He led a team that currently worked or advised 15+ Local Authorities and he assured the Committee that he had a depth of local government knowledge.

Mr Dulay then referred to the Internal Audit Plan and what BDO intended to deliver for the Council which would result in an Annual Internal Audit report and opinion for 2024/25 being presented to the Committee next year similar to the previous item. The proposed Audit Plan was included within the agenda pack and he highlighted key areas which had been discussed with the Corporate Management Team following a review of the Risk Registers and the audit work undertaken by RSM.

He referred the Committee to page 99 onward of the agenda pack which outlined the operational Internal Audit Plan for 2024/25. There were 200 days allocated to the plan with 15 flexible days that could be adapted as required. He stated that any outstanding recommendations that had been raised by the previous Internal Auditors would be taken on by BDO and followed up. Status reports would come back to the Committee detailing work carried out. The audits that had previously been carried out by RSM would be built on by BDO and would include audits on Council Tax, NNDR and business continuity. Audits would also be carried out on how the Council responds to threats such as the recent cyber attack that was carried out on the NHS, what arrangements were in place, what business continuity was in place. He then referred Members to the Charter that was appended to the report papers which was a requirement of Public Sector Internal Audit Standards. The charter formally defined what internal audit's mission, purpose, authority and responsibility was and it was issued each year.

A short discussion followed, with one Member stating he was very impressed with the document and how it had been presented. Further comments were made in respect of some aspects of the plan which were unclear and it was stated that perhaps the terminology used needed to be clarified. A further question was asked about whether the 15 flexible days would be enough to which the Internal Auditor responded that they understood the pressures within local government and they would work pragmatically to find a solution within the days given.

Members noted the report.

7. 2023-2024 Treasury Management Annual Report

The Deputy Chief Executive, Section 151 Officer presented the report which detailed the Treasury Management activity for the financial year 2023/24. The Committee had received and approved quarterly Treasury updates during the year. The Council had approved a annual Treasury Management Strategy on 1 March 2023 which was the framework within which the Council operated.

The Deputy Chief Executive, Section 151 Officer referred the Committee to the summary at page 123 of the report. The largest debt was within the Housing Revenue Account (HRA) when the Council had bought itself out of the subsidy system for the HRA and the debt was being repaid over the agreed period. There was also a change of movement between the long-term and short-term debt as shown in the summary.

There had been a significant improvement in the base rate which had improved the income achieved from budgeted investments. The provisional outturn was £1.6m, an additional £832K in excess of budget. This had been achieved through a combination of attaining higher interest rates and the placement of investments for longer durations.

The Council had also invested in the CCLA (Church, Charities and Local Authorities) Property Fund which invested in property on behalf of the Council. The value of the fund fluctuated in line with property market values but this was a long-term investment and currently stood at £2.529m as at 31 March 2024. The primary reason for investing in the fund was the quarterly dividend payment which provided a significantly higher return than other investments. The dividend payable for the year was £132,677.91 which equated to a 4.40% return on the initial investment of £3m.

The total amount of variable rate investments had decreased slightly between 31 March 2023 and 31 March 2024 and had reduced from £18.629m to £18.420. Members were referred to the graphs starting at the end of page 119 of the report which detailed the investments and duration.

The Council's treasury advisers, Link provided benchmarking of comparative information across all their clients which help the Council to understand how its investment portfolio was performing in relation to others so that there was minimal risk to the Council.

The Committee were drawn to paragraph 3.18 of the report and the table showing each quarter analysis of the Council's average rate of return compared to the other District Councils within the comparative group. The Council was slightly higher than its peers and this was down to each Council's individual decision making and how its money was invested.

During 2023/24 the Council had placed more emphasis on ESG (Environmental, Social and Governance) Investments and this would continue in 2024/25 to maintain at least 10% of the portfolio for this type of investment. The Council had received significant returns during 2023/24 which were above and beyond those expected which had helped to keep the financial reserves balanced.

The Deputy Chief Executive, Section 151 Officer was thanked for the report and it was proposed, seconded and **AGREED** to approve the annual report on Treasury Management activity for 2023/2024.

Decision

That the Governance and Audit Committee approves the annual report on Treasury Management activity for 2023/24.

8. Review of Treasury Management Activities - Environmental, Social and Governance Review

The Leader of the Council presented the report which concerned the findings of an independent review of Environmental, Social and Governance (ESG) treasury management activities as requested by the Governance and Audit Committee.

In introducing the report, the Leader stated that the Council had to be mindful of how it invested public money. The independent review clearly sets out the current position in relation to Environmental, Social and Governance factors when making investment decisions. The key findings of the report were shown at paragraph 3.2 and the issue of “green washing” and how this can be prevented. The Leader reminded the Committee that the contents of the appendix were exempt and he recommended the report to the Committee.

Reference was made to the Sustainalytics score within the report and what that actually meant.

The Interim Deputy Section 151 Officer stated that it was in relation to the metrics, security, liquidity and yield. It was set around the Treasury Management and the information contained on the pink papers was confidential to the Council. It was a developing area and changes to the CIPFA Treasury Management Code include addressing Environmental, Social and Governance (ESG) issues within the Council’s treasury management policies and statements.

The Chairman of the Committee responded to what Sustainalytics assesses companies for their level of involvement in controversies that have an impact on the environment or society and the associated business risks companies face from such involvement.

One Member stated that ESG was a rapidly moving area and requested that a report was brought back to the Committee on an annual basis.

It was proposed, seconded and **AGREED** to note and approve the findings of the independent review of the Council’s environmental, social and governance activities and to continue to review and assess the Council’s approach to ESG as part of the annual review of the Treasury Management Strategy Statement.

Decision

- 1. To note and approve the findings of the independent review of the Council’s environmental, social and governance activities.***
- 2. To continue to review and assess the Council’s approach to ESG as part of the annual review of the Treasury Management Strategy Statement.***

9. Whistleblowing Policy 2024 - 2026

The Deputy Chief Executive, Section 151 Officer presented the report on a revised Whistleblowing Policy 2024-2026. As part of the Committee's terms of reference, whistleblowing was one of the key areas of focus as it was an essential element of delivering good governance. The Whistleblowing Policy had been separated from the Counter Fraud Framework as whistleblowing disclosures would not always be in connection with fraud and would be more associated with the categories outlined at 2.4 of the report.

A flowchart had been included within the Policy which would help with the navigation with a whistleblowing process. New arrangements for reporting whistleblowing had come into effect from 1 April 2024 following the new reporting service that had been established. Statutory Officers that can be notified of whistleblowing concerns were the Chief Executive, the Monitoring Officer and the Section 151 Officer. Anonymous whistleblowing was not encouraged as incidents were difficult to investigate and brought to a conclusion. Page 5 of the new Policy dealt with how concerns could be raised. The new Whistleblowing Policy was part of a broader framework in respect of Counter Fraud and met all the statutory requirements.

The Chairman commented on remaining anonymous when making allegations in respect of whistleblowing to which the Deputy Chief Executive, Section 151 Officer replied that it was helpful if it was known who was making the allegation as it could provide further information that could reveal a bigger issue and allegations could be fully investigated. The success of anonymous allegations tended to be lower due to the lack of dialogue that was undertaken.

A question was also asked about investigating vexatious allegations.

Further comments were made in respect of the policy in particular the flow chart and adding the decision at the end as it seemed to "stop" before the end and the appeal process was not included. It was stated that the information was referred to within the green banner but it would be re looked at.

Members welcomed the new document and it was proposed, seconded and **AGREED** to note the contents of the report and approve the revised Whistleblowing Policy 2024-2026 as appended to the report.

Decision

That the Governance and Audit Committee approves the revised Whistleblowing Policy 2024-2026 as appended to the report.

10. Anti-Money Laundering Policy 2024 - 2026

The Deputy Chief Executive, Section 151 Officer presented the report which updated the Anti-Money Laundering Policy. The Anti-Money Laundering Policy outlined the Council's responsibilities to comply with relevant legislation. The Policy sat alongside the Council's Whistleblowing Policy, Counter Fraud Policy and the Council's Code of Conduct for Employees.

The Anti-Money Laundering Policy was last reviewed by the Committee on 26 January 2022. The new policy had been reviewed to reflect best practice and changes in legislation. The Proceeds of Crime Act 2002, Terrorism Act 2000 and The Money Laundering and Terrorist Financing (Amendment) Regulations 2019 placed obligations on the Council and its employees to establish internal procedures to prevent the use of their service for money laundering.

A question was asked in relation to cash handling.

It was proposed, seconded and **AGREED** to note the content of the report and to approve the revised Anti-Money Laundering Policy 2024-25.

Decision

That the Governance and Audit Committee notes the content of the report and approves the revised Anti-Money Laundering Policy 2024-25.

11. Corporate Plan 2024-27: Key Performance Indicators

The Cabinet Member for Governance and Licensing introduced the report which presented the proposed key performance indicators (KPI)s for the Corporate Plan 2024-27 to be monitored by the Governance and Audit Committee. The Corporate Plan 2024-27 had been approved in January 2024. A report on KPI's had been to all other Committee's including all Overview and Scrutiny Committees. Historically the Governance and Audit Committee had not had any KPI's, these had gone to the Finance OSC; however, it was felt that the KPI's appended to the report should come before the Governance and Audit Committee. Once the KPI's were approved they would become a regular part of the Committee's work plan and would be reported mid-year and at Quarter 4. The Cabinet and the Corporate Management Team received quarterly reports on KPI's.

The Committee would only review KPI's under its remit. An effective KPI suite must:

- Measure activity and performance
- Understand experiences and outcomes
- Use evidence to inform and drive improvement

The selected metrics should wholly be within the Council's control and they should be SMART, Specific, Measurable, Attainable, Relevant and Timely. The KPI's may change from time to time and they would be subject to an annual review and he asked Members to accept the KPI's for the Committee.

A discussion then followed in respect of the Member Development KPI, mandatory training and personal development plans. The Cabinet Member for Governance and Licensing stated that the Council was striving towards a Councillor Development Charter status and one of the criteria factors was that each Councillor had a Personal Development Plan in place. It was proposed that a Member Development Group would be convened to look at Member Development.

Some Members were in favour of Personal Development Plans and having training but it was noted that not everyone had capacity within their busy lives to attend either in person training or hybrid training

Further discussion followed in respect of having 100% training targets and whether or not these were meaningful, would positive or negative feedback be more helpful. It was felt by some Members that the quality of the trainer had an impact on Member Development/Training sessions and also attendance figures, also consistency in the training material given.

Some Members felt that the training sessions were excellent and reference was made to the Governance and Audit training session.

More discussion followed in respect of mandatory training and the accreditation for charter status following which it was proposed, seconded and **AGREED** to:

- 1. Approve the key performance indicators appended to the report for review associated with the actions in the Corporate Plan 2024-27.***
- 2. Note that key performance indicators will be monitored throughout the year as determined by the Committee in agreeing its work programme.***
- 3. Note that the KPI suite will be reviewed and if necessary revised as part of the annual review process.***

12. Work Programme 2024/2025

There was nothing to add to the Work Programme.

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

The Chairman reminded the Committee that the next scheduled meeting was 17 July 2024.

14. Close of meeting

The meeting closed at 11:38am.