

Meeting of the Governance and Audit Committee

Tuesday, 16 July 2024, 10.00 am



SOUTH
KESTEVEN
DISTRICT
COUNCIL

Committee Members present

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

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
Graham Watts, Assistant Director (Governance and Public Protection) and
Monitoring Officer
Paul Sutton, Interim Head of Finance, Deputy 151 Officer
Tracey Elliot, Governance and Risk Officer
Lucy Bonshor, Democratic Officer

15. Apologies for absence

Apologies for absence were received from Councillor Sue Woolley and Councillor Peter Stephens.

16. Disclosure of interests

No interests were disclosed.

17. Minutes of the meeting held on 19 June 2024

The minutes of the meeting held on 19 June 2024 were proposed, seconded and **AGREED** as a correct record.

18. Updates from previous meeting

All actions were complete.

19. External Audit Plan and Strategy for the Year Ending 31 March 2024

The External Auditor from KPMG, Audit Director Salma Younis presented the draft External Audit Plan and Strategy for the year ending 31 March 2024 to the Committee. The Audit Plan set out the risk assessment of the work carried out by the External Auditors and the significant risk areas that the Auditors would be focusing on. Other standard risk areas would be looked at but were not included in the significant risk areas.

The Committee were referred to page 19 of the agenda pack which outlined the scope of the work to be carried out in respect of the audited accounts and the materiality levels that would be looked at. An audit threshold of £82.5m had been set and anything audited above this amount would be reported to the Governance and Audit Committee.

Page 20 of the agenda pack listed specialist teams that supported the auditors and this included KPMG's Pensions Centre of Excellence which would look at the balances in respect of the Council's local government pensions scheme and also a Real Estate Valuation Team that would look at the Council's asset valuation in respect of the audit.

The group audit scope included LeisureSK Ltd but this would be audited separately by another auditor, however, it would be looked at for the purposes of consolidating the group accounts only.

The Audit Director then referred to the five significant risk areas summarised within the Audit Plan and these were:

- Land and buildings
- Investment property
- Management override of controls
- Valuation of post-retirement benefit obligations
- Expenditure recognition

A further audit risk was where Revenue expenditure was inappropriately recognised as capital expenditure.

The Auditor then spoke about Revenue Recognition which was a mandatory audit risk that auditors had to apply across all areas and this was explained within the plan and covered the income streams such as;

- Council tax
- Business rates
- Fees and charges

- Grant income

The rationale was included in the plan against each income stream which had been rebutted as it was felt that often, rather than income this was an expenditure risk to allow a balance budget for the end of year.

As well as auditing financial statements the auditors also looked at Value for Money (VFM) arrangements. The risk assessment approach of the auditors was set out in the plan but unfortunately this had been unable to be progressed at the current time and the Committee would receive the arrangements at a future meeting, as they were still awaiting final documents from management. The three areas that would be looked at covered; Financial sustainability, Governance, and Improving economy, efficiency and effectiveness. There was no change to the framework that had been outlined by the previous auditors.

The appendices to the plan and strategy included details on the audit team, confirmation of independence, KPMG's Audit quality framework and the auditing standards.

The Auditor was thanked for her report and the well laid out documents presented. Comments were made about the challenges nationally with the late sign off of accounts by Auditors and the backlog that was being experienced nationally. South Kesteven District Council were in a better position than most other authorities.

The changing regulator requirements were unhelpful, but plans had been put in place to address the backlog with some auditors issuing Audit Disclaimers.

A question was asked in respect of actual and potential risks and the Member was referred to the plan and the risks outlined. A further question was asked in respect of the Value for Money documentation and the Interim Head of Finance indicated that the documents would be available by the end of the week, as it was a new auditor it had necessitated a completely new document being compiled.

A comment was made about the valuation of assets and it was confirmed that the District Valuer was used to value assets for the accounts. Another comment was made about the audit risks and the overriding of controls by management to which the Deputy Chief Executive and Section 151 Officer replied that there was no concern at the present time.

Members noted the draft plan and strategy.

20. Counter Fraud Annual Report 2023/24

The Deputy Chief Executive and Section 151 Officer presented the Counter Fraud Annual Report 2023/24. As part of the Committee's terms of reference it was a requirement to produce an annual report on the counter fraud arrangements in place and the activities undertaken. The report documented the work undertaken during 2023/24 and indicated the work that would be undertaken during 2024/25.

The document was split into four broad headings covering:

- Counter Fraud Risk Assessments
- Housing Benefit and Council Tax Support Fund
- Single Person Discount
- Business Rate Relief – Retail Discount

It was stated that one area of work for the Committee to consider receiving information on was in respect of the risk assessment work carried out by the previous internal auditors RSM, working with senior officers to develop a Fraud Risk Register which had been developed and independently verified.

The document highlighted key theoretical risk areas across the authority around internal controls such as:

- Segregation of duties
- Separation of roles and responsibilities
- External frauds around claimants and inappropriate declarations

The document would help direct future work plans of the internal audit and also senior management. The information could be used to generate a Heat Map using the RAG status to show where vulnerabilities lie and what measures and processes could be put in place to help strengthen these areas. Work was still progressing on the document and the Committee would be kept informed of its progress during the year.

Further work was being done in respect of Housing Benefit and Council Tax Support Fund and the potential for fraud vulnerabilities in this area. The council was working closely with the DWP on any referrals and false declaration information. Members were referred to the table at 4.7 of the report which detailed the Housing Benefits Overpayments made during 2023/24. There was around a quarter of million pounds of fraud debt that had been identified either through the DWP or whistleblowers. There was a dedicated officer that was focused solely on this type of work looking at referrals and claimants.

The other area of work was in respect of Single Person Discount (SPD) and this was where a person self-declared that they lived in a property on their own and received a 25% discount on their Council Tax. This was policed by the individual and it was their responsibility to notify the council of any changes. This area was open to fraud and the Council had worked with an external provider in March 2024 to review the SPD which had resulted in the removal of 573 from the Council Tax account and generated revenue of £75,611. The review would be complete in August 2024 and it was proposed that a rolling review rather than an annual review be put in place and that the analysis of further options would be explored including the use of a fraud referral service to identify historic cases for revenue collection and options to pursue sanctions, including prosecution. The use of a fraud referral service provided all the information required to demonstrate strong grounds to challenge those claimants who appear to have deliberately lied to maintain their

discount or exemption and those who had not declared appropriately were open to a £70 fine.

The other area where fraud work had been undertaken was in respect of the Business Rate Relief in respect of the retail, hospital and leisure sector post the Covid pandemic. The Chancellor had announced a new business rates relief scheme for retail, hospitality and leisure properties for 2023/24 with a 75% relief, up to a cash cap of £110,000 per business. The Council had applied the relief when the annual business rates bill had been raised in March 2023. Included in the bill was a letter requesting the ratepayer to complete an on-line form either opting-in or opting-out of the relief scheme. For those who had opted-out or did not complete the form their relief was removed and amended bills issued on 1 May 2023. As of 31 March 2024, the Council had awarded business rates relief in the sum of £3,625,161.

Comments were made in respect of the banding areas where most Council Tax fraud took place, housing and planning allocations, benefit overpayments, Single Persons Discounts, the effect of Universal Credit on benefits to which the Deputy Chief Executive and Section 151 Officer responded.

It was proposed, seconded and **AGREED** to approve the Counter Fraud Annual Report for 2023/24.

Decision

That the Governance and Audit Committee approve the Counter Fraud Annual Report for 2023/24.

21. Counter Fraud Strategy 2024-26

The Cabinet Member for Corporate Governance and Licensing introduced the report. As part of the Committee's terms of reference, one of the key areas was the monitoring and review of the counter fraud arrangements in place. The Counter Fraud framework had been reviewed and the Whistleblowing and the Anti-Money Laundering Polices had been removed as it was felt that these should be standalone policies as they may cover things that may not be related to fraud.

The Counter Fraud, Bribery, and Corruption Strategy 2024-26 aligned to the Fighting Fraud and Corruption Locally (FFCL) 2020: A strategy for the 2020s, the counter fraud and corruption strategy for local government which was endorsed by a range of organisations including the Local Government Association, CIPFA Counter Fraud Centre and SOLACE.

The Counter Fraud, Bribery, and Corruption Strategy 2024-26 aligned to the FFCL's pillars of activity; Govern, Acknowledge, Prevent, Pursue and Protect and these were detailed within the report.

Members were supportive of the document and it was stated that the detail within the document was at a high level. The Governance and Risk Officer referred Members to page 68 of the agenda pack which detailed the key priorities for the period and the proactive programme of activity to be undertaken.

The Interim Head of Finance stated that the document would influence the Internal Audit Plan and the key controls in place, although they would not look directly at fraud.

One Member referenced the Corporate Risk Group at the County Council to which the Governance and Risk Officer replied that there was a Risk Management Group which covered, fraud, internal audit and insurance which was similar. The Statutory Officers within the Council received regular reports on any issues raised.

The Cabinet Member for Corporate Governance and Licensing thanked the Governance and Risk Officer for her work on the document together with the other officers involved. Reference was also made to the mandatory training sessions on counter fraud that Members should be attending.

It was proposed, seconded and **AGREED** to approve the Counter Fraud, Bribery, and Corruption Strategy 2024-26.

Decision

That the Governance and Audit Committee approves the Counter Fraud, Bribery, and Corruption Strategy 2024-26 as appended to the report at Appendix A.

22. Whistleblowing Annual Report 2023/24

The Cabinet Member for Corporate Governance and Licensing introduced the report and reminded the Committee that they had approved the Whistleblowing Policy 2024-26 at the last meeting of the Committee. The report before the Committee summarised the instances of whistleblowing allegations that had been received during 2023/24.

The Whistleblowing Policy had been separated from the Counter Fraud Framework. During 2023/24 14 allegations of whistleblowing had occurred, 11 had been reported through the whistleblowing hot line and three direct from members of the public direct to the Council. All allegations had been made by external people.

Paragraph 4.3 of the report summarised the categories of disclosures made during 2023/24. The Statutory Officers Group received a monthly whistleblowing report which included any investigation reports in respect of whistleblowing disclosures and the Group reviewed the reports and agreed the actions to be taken where appropriate.

A comment was made about vexatious whistleblowing allegations and it was stated that due diligence was carried out on all allegations made.

Identification of whistleblowers was highlighted and it was stated that it was often more difficult to investigate anonymous allegations and an example was given of an incident that more information had been gained by repeat contact with the person making the allegation. To enable a clear audit trail in respect of allegations a Confidential Whistleblowing Investigation Report template was appended to the report to be completed in respect of all allegations made.

Comments were made in respect of the alleged incidents and the outcomes and other reporting mechanisms to which the Governance and Risk Officer replied.

The Committee noted the report.

23. 2023/24 Statement of Accounts Audit Update

The Leader of the Council introduced the report which updated the Committee on the progress of the Statement of Account for 2023/24. A full statement of accounts was not expected before November 2024. The issues with the close down and auditing of the Statement of Accounts within Local Government had been well documented. Nationally there was a shortage of auditors, the issue had become so severe that the Department of Levelling Up, Housing and Communities (DLUHC) had intervened and had created phased deadline dates or back stop dates for each financial year's accounts and these were detailed in the report.

Some local authorities had two years outstanding accounts, with some having three and four years outstanding accounts, it was not known what the consequence of not meeting the back stop dates would be, but it was expected that auditors would make a modified or disclaimer opinion on the outstanding accounts.

The Council was not in that position with the accounts for 2022/23 as they had been in only 10% of local authorities who had their accounts audited. Progress on the 2023/24 Statement of Accounts had been positive, however there were a small number of issues that had delayed the provisional outturn, including the implementation of a new housing rent system and staffing capacity issues.

The main issue that had impacted the closedown of the financial year had related specifically to the implementation of a new housing rent system. The system had gone live in January 2024 and the information required for the outturn of the accounts had proven difficult to acquire. The implementation of the Council's new finance system, Unit 4, was also having an impact as the finance officer's input was required throughout the implementation.

Comments were made about staffing capacity around the new systems that had been implemented to which the Interim Finance Officer replied.

The Committee noted the current position.

24. Draft Annual Governance Statement 2023/24

The Leader of the Council introduced the report. The Draft Annual Governance Statement 2023/24 formed part of the Statement of Accounts and was a statutory document required by the Accounts and Audit Regulations 2015. The document assessed how the Council had complied with the Local Code of Corporate Governance, provided an opinion of the effectiveness of the Council's arrangements and provided details of how the continued governance would be achieved. The Statement was issued annually and would be issued with the Statement of Accounts in November. The content of the Foreword of the document remained the same, how the Council would be held to account and how the Corporate Plan goals would be achieved in an effective way.

The Deputy Chief Executive and Section 151 Officer stated that the document was for noting, but also for the Committee to provide feedback that the document reflected accurately the work that the Council had undertaken. It was a key document that the external auditors, KPMG would look at together with external bodies to see the work of the Council. The document should show how the Council was open and transparent in how it dealt with governance. The document followed the seven principles that had been set out by CIPFA and SOLACE in 2016 and the Council operated within that set framework. Reference was made to the Foreword which had been refreshed and updated to give a more open and pragmatic approach to the work of the Council and the journey that the Council was on and the changes to the Corporate Plan. The document was in draft format and would come back to the Committee with the Statement of Accounts in November 2024.

The Committee considered and noted the content of the report.

25. Provisional Outturn Report 2023/24

The Leader of the Council presented the report which concerned the Provisional Outturn Report for 2023/24. He thanked Officers for their hard work and diligence in putting all the reports together for the Committee. The report covered:

- The General Fund (GF) Revenue Budget
- The Housing Revenue Account (HRA) Budget
- The Capital Programmes – General Fund and Housing Revenue Account
- The Reserves Statement – General Fund and Housing Revenue Account

In introducing the report, the Leader commented on the new Housing System which had not interacted with the other accounting systems as expected, which had caused problems in retrieving the necessary data for the outturn report. The Leader also commented on the scheduling of the report to the Governance and Audit Committee, ideally the report should have been to the Finance and Economic

OSC first, however, this had not happened even with the change of date for the Finance and Economic OSC.

The Council was in a relatively positive position, it had been anticipated that £1.534m of the Budget Stabilisation Reserve would be needed during 2023/24 in response to an unprecedented increase in budgets relating to utilities, inflation, material and fuel costs. However, the Budget Stabilisation Reserve had not been required as the situation had improved which had given the Council more flexibility with the General Fund and the Housing Revenue Account budgets. The Provisional Outturn report had been considered and debated at a recent Cabinet meeting and would be going before the next Finance and Economic OSC.

The Cabinet had considered a number of budget carry forwards which were listed within tables 1 and 3 of the report in respect of General Fund budget carry forwards and tables 6 and 8 of the report in respect of Housing Revenue Account budget carry forwards. Regular monitoring reports had been provided throughout the year to keep Members informed of the accounting position and that the requirement to use the Budget Stabilisation Reserve was not needed due to the Council's investments performing better than expected and the way that the Council had managed its money internally.

It was proposed that two reserves were strengthened and these were the ICT Reserve, an increase of £200K and the Property Maintenance Reserve, an increase of £250K which reflected the importance of keeping these reserves at a level that enabled continued investment to be made. Reference was made to the recent cyber-attacks on ICT systems nationally and the need to have systems that were up to date and resilient to attacks. It was proposed that new reserves were formed and these were:

- The creation of a Flood Reserve of £30K to fund unforeseen costs in the event of extreme weather conditions such as Storm Babet.
- The creation of a Leisure Investment Reserve of £200K in order to provide one-off funding in respect of leisure initiatives, with reference being made to the investments required in respect of the management and maintenance of the leisure centres and the change in government policy following the recent election. Reference was also made to the £850K reserve already in place in respect of the Deepings Leisure Centre if and when it materialised.

The report gave a positive position in respect of the outturn for 2023/24 taking into account the concerns that had been made at the beginning of the year in respect of energy prices and investment returns and he asked the Committee to approve the recommendations contained within the report.

The Deputy Chief Executive and Section 151 Officer reminded the Committee that they approved the recommended reserve movements that had been outlined by the Leader. The Deputy Chief Executive and Section 151 Officer also highlighted the delegation within the recommendation which had been amended at Cabinet to also

include the Cabinet Member for Housing. The reason for the delegation was that work was continuing in respect of the Statement of Accounts and the working balances would need to be signed off and the end of year entries were still to be confirmed. The GF and HRA balances needed to work within a tolerance of between 10% - 15% of the net operating expenditure which had been set by Council and was a target that needed to be worked towards. It was possible that amendments could be required to reach this target.

The Deputy Chief Executive and Section 151 Officer confirmed that the Cabinet had approved the carry forwards as outlined within the report at their recent meeting which were for noting by the Committee. He referred Members to the appendices of the report which gave greater detail in respect of the General Fund and Housing Revenue Account and also the Revenue Capital and Reserves for each area. Members were referred to table 4 and table 9 of the report which detailed the General Fund Capital Outturn Position and the Housing Revenue Account Capital Outturn Position and the capital programme that had changed significantly from the start to the end of the year, with most budgets being carried forward to the current financial year. The bolstering of the budgets that had been mentioned had been made in consultation with the Cabinet and were due to either spending pressures or the ambition to carry through with the project work.

Members noted the comments that had been made around the sequencing of the report to the various committees and the recommendations proposed and the reasons put forward for strengthening certain budgets and creating new budgets. The Leader made reference to recommendation 3 which was the transfer of £100K from the HRA Priorities Reserve to create a HRA Climate Change Reserve which he felt was something to celebrate as it would enable climate change mitigation and adaptation measures within the Council's housing stock and he wanted to draw the Committees attention to that recommendation.

One Member commented on the carryover of funding in respect of the Rough Sleeper project which she had concerns about, she asked what progress had been made with the project and what action was being taken to spend the funding this year. The Deputy Chief Executive and Section 151 Officer indicated that updates were given to the Housing OSC and that the Officer in charge of this funding was the Head of Housing, he stated that he would be happy to ask that an update be given to the Member concerned.

Further comments were made in respect of the layout of the report which was easy to follow and the explanations given. The recommendations contained within the report were proposed, seconded and **AGREED**.

Decision:

That the Governance and Audit Committee:

- 1. Reviewed and approved the provisional Revenue and Capital Outturn Position and associated appendices for the financial year 2023/24.**
- 2. Reviewed and approved the following reserve movements in respect of the General Fund:**
 - £680k of the Business Rates Volatility Reserve to be transferred to the:**
 - ICT Reserve – to be increased by £200k**
 - Property Maintenance Reserve – to be increased by £250k**
 - The creation of a Leisure Investment Reserve of £200k**
 - The creation of a Flood Reserve of £30k**
- 3. Reviewed and approved the following reserve movement in respect of the Housing Revenue Account:**
 - Transfer £100k from the HRA Priorities Reserve to create a HRA Climate Change Reserve**
- 4. Delegate to the Deputy Chief Executive and s151 Officer in consultation with the Cabinet Member for Finance & Economic Development and the Cabinet Member for Housing to finalise the reserve movements in order to ensure the Working Balance level for the General Fund and the Housing Revenue Account are maintained at prudent levels.**
- 5. Notes the Budget Carry Forwards as shown within the report at Sections 3, 4, 5 & 6.**

26. Proposed amendments to the Council's Constitution

The Cabinet Member for Corporate Governance and Licensing presented the report to the Committee. He withdrew recommendation 2 as outlined within the report as there was already a mechanism within the Constitution for a Committee to deal with these policies.

The Committee was only dealing with the recommendations contained at recommendation 1 which was split into three:

- a) Provision of a public open forum at meetings of Cabinet.
- b) Provision of Member questions at meetings of Cabinet.
- c) Provision of Member questions at the annual meeting of Full Council.

The recommendations introduced further measures to allow Members and the public to question the Leader and the Cabinet in a formal meeting. Currently there was a public forum at the beginning of Full Council to allow the public to ask questions. However, due to the length of recent Full Council meetings Members open questions, where there was an opportunity to ask questions of the Leader and Cabinet Members, had not been able to take place. The Cabinet Member for Corporate Governance and Licensing felt that it was an important right of Members to be able to question the Leader and other Cabinet Members and ask questions about their communities and also the business of the Cabinet.

During the last few months, the Leader had given Members the opportunity to ask questions at Cabinet meetings and it was now proposed that this became a right of Members to be able to ask questions at Cabinet meetings and that this be added to the Constitution. It was also proposed that this right be extended to the public and that a public open forum be held at the start of Cabinet meetings, the rules of which would be included within the Constitution and follow the rules already in place for public speaking at other meetings.

A further proposal was that the Constitution was amended to allow for Members Open questions to be included on the agenda at the Council AGM.

Members welcomed the proposals put forward. Comments were made in respect of when questions could be asked and it was stated that the Members Open Questions proposed at Cabinet was in addition to Members being able to ask questions on particular agenda items. Further comments were made in respect of the submission of written questions and timeframes and it was stated that having questions in advance, allowed for a more informative response to be given. The Leader stated that questions could be asked of the Leader and Cabinet at any time, not just in the public domain via the Council's meetings.

Further comments were made about time and the length of Full Council meetings and the timing of Lincolnshire County Council meetings. It was commented that the agenda for Full Council meetings at South Kesteven were often "heavy" however, the length of time was not helped by some Members taking too long to make their point on an agenda item. Questions in advance of any meeting were always better as a more informative response could be given.

The recommendations as outlined within the report at recommendation 1 were proposed, seconded and unanimously **AGREED**.

Decision

That the Governance and Audit Committee recommends the following constitutional amendments to Full Council:

- a) Provision of a public open forum at meetings of Cabinet.***
- b) Provision of Member questions at meetings of Cabinet.***
- c) Provision of Member questions at the annual meeting of Full Council***

27. Work Programme 2024-2025

Nothing was added to the Work Programme.

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

There was no other business to discuss and the meeting closed at 11:51.