



To be submitted to the Council at its meeting on 15th December 2022.

AUDIT AND GOVERNANCE COMMITTEE

10th November 2022 at 10.30 a.m.

Present: Mr. T. Render (in the Chair)
Councillors Astbury, Cairns, Green, Hasthorpe (substitute for Boyd),
Holland, Patrick, Parkinson and Reynolds

Officers in attendance:

- Helen Isaacs (Assistant Chief Executive)
- Simon Jones (Assistant Director Law and Governance)
- Peter Hanmer (Head of Audit and Assurance)
- Guy Lonsdale (Deputy Section 151 Officer)
- Liz Brummer (Strategic Lead – Accountancy)
- Rachel Carey (Strategic Lead – Accountancy)
- Clare Swainson (Strategic Lead – Accountancy)
- Lucy Mayall (Accountant)
- Caroline Wilson (Strategic Lead – Risk and Assurance)
- Mark Edwards (Strategic Lead – Fraud)
- Paul Windley (Democratic and Scrutiny Team Manager)

Also in attendance:

- Councillor Harness (Portfolio Holder for Finance, Resources and Assets)
- Mike Norman (Mazars)
- Councillor Shutt

AC.14 APOLOGIES FOR ABSENCE

No apologies for absence were received for this meeting.

AC.15 DECLARATIONS OF INTEREST

There were no declarations of interest made with regard to any items on the agenda for this meeting.

AC.16 MINUTES

The committee received the minutes of the Audit and Governance Committee meeting held on 21st July 2022. At minute AC.5, the Chair noted that an Audit Working Group meeting would be held by January 2023 to consider the governance arrangements for Freshney Place.

RESOLVED –

1. That the minutes of the Audit and Governance Committee meeting held on 21st July 2022 be agreed as an accurate record.
2. That the governance arrangements for Freshney Place be considered at a meeting of the Audit Working Group to be arranged and held by January 2023.

AC.17 TRACKING OF RECOMMENDATIONS

The committee received a report from the Executive Director for Environment, Economy and Resources tracking the recommendations of the Audit and Governance Committee.

It was noted that an update on progress with implementing the recommendations of the Zurich review would be received at this meeting and therefore both actions identified in the report could be marked as completed.

RESOLVED – That the report be noted and the completed actions be removed.

AC.18 STATEMENT OF ACCOUNTS 2021/22

The Committee considered a report from the Executive Director for Environment, Economy and Resources introducing the external auditor's Annual Governance Report and seeking approval of the Council's financial statements.

Mr Lonsdale introduced the report and explained that the deadline for publication of the statement of accounts had been extended to 30th November 2022. The accounts were prepared on a going concern basis. The inclusion of a joint statement from this committee and the council's management provided an assurance that the accounts were underpinned by sound financial management practices and disclosed all relevant information.

Mr Norman was invited to give the external auditor's opinion on the accounts. Mr Norman explained that the audit work was now substantially complete subject to one outstanding matter relating to infrastructure, which was a national issue felt to be relatively uncontentious. Therefore, the unqualified opinion on the accounts remained draft, although he expected this to be confirmed as final opinion in January 2023.

The Chair thanked Mr Norman and the council's accounting team for the work done in preparing the accounts properly and achieving the unqualified opinion. He invited questions from committee members.

Councillor Holland questioned why certain details had not been included in the statement of accounts, such as budget spend and benchmarking information.

Mr Lonsdale responded that an overview of the council's budget had been included within the narrative statement but the detail of spend would be found elsewhere, for example within the quarterly finance reports that were submitted to Cabinet and scrutiny. Similarly, benchmarking information was available elsewhere and the statement of accounts were, principally, technical papers. However, he agreed to look at whether it would be possible to refine the narrative statement in future.

The Chair enquired about the reported rise in employee costs. It was noted that this was mainly due to way pension funds were accounted for. The pay award had also had an impact, including to the increase in the number of officers paid more than £50k per year.

The Chair noted the joint management and Audit and Governance Committee response to the external auditor's request for information, which he had agreed on the committee's behalf. The committee confirmed its agreement and endorsed the draft management representation letter provided by the external auditor.

The Chair enquired whether there was anything to update on the Annual Governance Statement.

Mr Hanmer responded that the main issue was awaiting confirmation of the external auditor's opinion but the governance statement just needed to be updated to reflect the positive outcome from correspondence with the Ombudsman and the Youth Justice inspection.

The Chair referred to the going concern report and the significant overspend forecast for this year's budget and enquired about the process for dealing with it.

Mr Lonsdale explained the issues behind the forecast overspend and the mitigating actions being taken. If those actions were unsuccessful then the council would need to draw down on non-recurrent sources of funding. It remained a difficult financial and economic environment at present and the outcome of the forthcoming budget statement was likely to have a significant impact.

RESOLVED – That, subject to receipt of the final audit certificate from the council's external auditors and any amendments arising, the Statement of Accounts 2021/2022 and the Annual Governance Statement be approved as laid out and evidenced by the signature of the Chair and Vice-Chair of the Audit and Governance Committee.

AC.19 TREASURY MANAGEMENT MID-YEAR REPORT 2022/23

The committee received a report from the Executive Director for Environment, Economy and Resources detailing the treasury management arrangements, activity, and performance during the first six months of 2022/23.

The committee raised a number of queries around delivery of the capital programme with particular concerns raised about the risk of borrowing costs.

Mr Lonsdale explained that the capital programme was being reprofiled and there were some inflationary issues impacting on delivery within original budgets. He provided an assurance that there was a process in place for dealing with any slippage on the capital programme. It was noted that the quarterly financial reports included details of spend on each capital programme scheme.

In terms of investment activity, Councillor Patrick enquired whether the approach being taken by other local authorities was being looked at, for example, to see if they were able to achieve better yields.

Ms Carey responded that this was now part of the monthly treasury reviews and the only inconsistency was around local authority lending, which this council had chosen not to pursue.

RECOMMENDED TO CABINET – That the content of the report now submitted, and this committee's comments as detailed above, be noted.

AC.20 MEDIUM TERM FINANCIAL PLANNING PROCESS

The committee received a verbal update on the medium-term financial planning process.

Mr Lonsdale noted the context for the financial planning process, particularly around the uncertainty caused by COVID and the challenges being faced by the council. He explained that the process was largely unchanged and commenced with a mid-year financial review in September. This had identified a number of significant pressures and there was a set process for dealing with any financial gaps. This included discussions with Cabinet members and senior officers through a 'star chamber' process that had taken place in recent weeks. As a result, business plans were now being developed ahead of informal scrutiny of the budget proposals in early December. Further work would then be undertaken prior to formal consultation with scrutiny and the public in January, although the detail would be dependent on the timing of the Government's financial settlement. There was an expectation that a balanced budget would be brought forward by the end of February via Cabinet and Council. He anticipated that there would be more engagement this year due to the challenges faced.

The Chair commended both the going concern report which formed part of the Statement of Accounts and the medium term outlook contained within the quarterly finance reports for how they provided an understanding of how the process was managed.

RESOLVED – That the update be noted.

AC.21 HALF YEARLY FRAUD UPDATE

The committee received a report from the Executive Director for Environment, Economy and Resources that highlighted the work that has been undertaken for the prevention and detection of fraud, corruption, and financial misconduct within North East Lincolnshire Council.

Councillor Holland enquired whether checks were made to prevent over-invoicing. Mr Hanmer noted that this would normally be picked up within the creditors audit but the new finance system now automatically checked for this and invoices were rejected if they did not match.

The Chair suggested that fraud communications issued by the council include messages about fraud outside the organization.

RESOLVED – That the content of the report now submitted be noted as part of this committee's responsibilities for monitoring and reviewing the council's arrangements in relation to fraud and corruption.

AC.22 EXCLUSION OF PRESS AND PUBLIC

RESOLVED - That the press and public be requested to leave on the grounds that discussion of the following business was likely to disclose exempt information within paragraph 3 of Schedule 12A of the Local Government Act, 1972 (as amended).

AC.23 STRATEGY RISK REGISTER UPDATE

The committee received a report from the Executive Director for Environment, Economy and Resources that provided a summary of the developments relating to risk management and the strategic risk register. This included a summary of the issues raised within the work undertaken by the council's liability insurers, Zurich Municipal, on the "health check" of the council's risk management arrangements

Councillor Hasthorpe highlighted the over-use of acronyms within the register. Mr Hanmer agreed to take this back to risk owners.

The committee discussed the controls listed within the report and felt that it was not always clear what they actually were and what they were achieving. Mr Hanmer noted that this was a message constantly being taken back to risk managers and there was a need to demonstrate that controls were actually bringing the risk down. The Chair commented that

there was the opportunity for those not willing to change their approach to be invited to appear before this committee to explain why. Mr Hanmer noted that there had been useful challenges arising from the Zurich Municipal review on the description of risks and steps were regularly being taken to develop the risk register.

Councillor Patrick restated his comments at a previous committee meeting about operational risks being brought to this committee. The Chair noted that this had been raised but the view from the committee was that they did not wish to pursue this option.

Councillor Holland enquired how decisions were taken on the adequacy of how risks were being managed.

Mr Hanmer explained the role of the Strategic Lead for Risk and Governance, the risk champion network and the council's Assurance Board in providing challenge.

The Chair noted that the minutes of the Assurance Board had previously been received by this committee for information but not recently. He requested that this be reinstated.

RESOLVED –

1. That the strategic risks identified on the Strategic Risk Register be noted.
2. That the progress in implementing the recommendations from Zurich Municipal's "health check" of the Council's risk management arrangements reported to the Audit Committee in April 2022, be noted.
3. That the minutes of the Assurance Board continue to be received by this committee.

AC.24 ISSUES FOR DISCUSSION WITH THE INTERNAL AND EXTERNAL AUDITORS

The committee was provided an opportunity, at the close of this meeting, to discuss any confidential matters of concern with the External Auditor and the Head of Internal Audit.

No such matters were raised.

There being no further business, the Chair declared the meeting closed at 12.14 p.m.