

NORTH HERTFORDSHIRE DISTRICT COUNCIL

FINANCE, AUDIT AND RISK COMMITTEE

**MEETING HELD IN THE FOUNDATION HOUSE, ICKNIELD WAY, LETCHWORTH
GARDEN CITY ON WEDNESDAY, 21ST MARCH, 2018 AT 7.30 PM**

MINUTES

Present: *Councillors Councillor Terry Hone (Chairman), Ian Albert, John Booth (substitute), Jim McNally and Terry Tyler.*

In Attendance: *Ian Couper (Head of Finance, Performance and Asset Management), Howard Crompton (Head of Revenues, Benefits and IT), Jeanette Thompson (Acting Corporate Legal Manager), Reuben Ayavoo (Senior Policy Officer), Ian Gourlay (Committee and Member Services Manager), Mark Chalkley (Client Audit Manager – Shared Internal Audit Services), Nick Jennings (Shared Anti-Fraud Manager, Shared Anti-Fraud Services), Phil Juhasz (SAF Investigator, Shared Anti-Fraud Services) and Kay Storey (Manager, Govt. & Public Sector, Ernst and Young).*

Also Present: *Councillor Julian Cunningham (Executive Member for Finance & IT).*

70 APOLOGIES FOR ABSENCE

Apologies for absence were submitted on behalf of Councillors John Bishop and Deepak Sangha. Councillor John Booth was substituting for Councillor Bishop.

71 MINUTES - 22 JANUARY 2018

RESOLVED: That the Minutes of the Meeting of the Finance, Audit and Risk Committee held on 22 January 2018 be approved as a true record of the proceedings and be signed by the Chairman.

72 NOTIFICATION OF OTHER BUSINESS

There was no other item of business tabled.

73 CHAIRMAN'S ANNOUNCEMENTS

- (1) The Chairman announced that Members of the public and the press may use their devices to film/photograph, or do a sound recording of the meeting, but he asked them to not use flash and to disable any beeps or other sound notifications that emitted from their devices. In addition, the Chairman had arranged for the sound at this particular meeting to be recorded; and
- (2) The Chairman advised that, in line with the Code of Conduct, any Declarations of Interest should be declared immediately prior to the item in question.

74 PUBLIC PARTICIPATION

There was no public participation.

75 EXTERNAL AUDIT UPDATE

The Manager (Govt. & Public Sector), Ernst & Young, presented an External Audit Update report.

The Manager (Govt. & Public Sector) drew attention to the significant changes in statutory deadlines for the audit of accounts for the 2017/18 Financial Year, with the Council needing to prepare draft accounts by 31 May 2018 and publish audited accounts by 31 July 2018. She highlighted the fact that Ernst and Young would therefore need good quality working papers to enable them to meet these deadlines, as well as access to key staff throughout the process and complete and prompt answers to audit questions.

The Manager (Govt. & Public Sector) had met with the NHDC Finance Team to discuss how some of the work could be brought forward. Some of that work had already been carried out in January 2018, and Ernst and Young had enabled certain key staff at NHDC to interface with their IT system for information exchange in order to speed up the process.

The Manager (Govt. & Public Sector) referred to the timetable contained in the report, which outlined the areas of work already completed. Ernst and Young would be carrying out work on valuation of the Council's fixed assets in April 2018. Further work would also be undertaken on an evaluation of transactions carried out on Integra 2 (the Council's upgraded financial management system). The year-end audit would be carried out in the first three weeks of July 2018.

The Manager (Govt. & Public Sector) commented that should major problems be encountered with the audit then Ernst and Young reserved the right to discuss this with the Section 151 Officer (for NHDC the Head of Finance, Performance and Asset Management) with a view to pulling the Audit Team out and returning at a later date. The Chairman asked that he be advised of this matter should it occur.

In response to a Chairman' question, the Head of Finance, Performance and Asset Management confirmed that he had plans and processes in place to ensure that the accounts were completed by the end of May 2018, and that resources would be in place to answer all of the audit enquiries by the end of July 2018.

RESOLVED: That the External Audit Update report be noted.

REASON FOR DECISION: To enable the Committee to comment on the External Audit Update report.

76 LOCAL GOVERNMENT AUDIT COMMITTEE BRIEFING

The Manager (Govt. & Public Sector), Ernst & Young, presented the latest Local Government Audit Committee Briefing Paper.

The Manager (Govt. & Public Sector) stated that the paper highlighted some of the Government, economic and environmental issues arising which could impact on local authorities. She referred to Page 8 of the document, where some key questions were set out for consideration by audit committees.

The Committee considered the key questions and responded as follows:

Has your local Authority considered the changes to council tax flexibilities into the 2018–19 budget and the impact of changes to business rate retention into your Medium Term Financial Strategy?

The Committee noted that, as part of the budget setting process, the Council Tax had been increased by 2.99% in line with the Medium Term Financial Strategy. In relation to Business Rates retention, the Council continued to forecast its business rates in come in line with the business rates baseline, which was a prudent estimate.

Wednesday, 21st March, 2018

Has your local authority been affected by the collapse of Carillion plc? How have contingency plans been implemented to maintain public services? What (if any) is the local authority's financial exposure to this event?

The Council had no contracts with Carillion plc or any of its sub-contractors. The Council continued to review all contracts, in order to benefit the Council and be rewarding to contractors.

Has your local authority included in its budget any likely increases of employee wages above 1%?

A 3% forecast increase in employee wages had been included in the budget for 2018/19 and 2019/20. Beyond those years, an ongoing annual 2% increase had been forecast.

Has your Authority considered how IFRS 15 might impact your revenue streams?

The Council was not expecting any impact on its revenue streams of IFRS 15, but would be keeping the matter under review.

How has the local authority prepared for the accelerated accounts closedown timetable for 2017–18?

Yes. As referred to in Minute 75 above.

Has the Authority considered the implications of the new GDPR, and is the Authority confident that it comply with its requirements when it comes into force?

The Council's IT Team had been working on this project for several months, carrying out data audits to ensure compliance. Training sessions had been arranged in April 2018 for both Members and officers.

On a separate matter, a Member asked if Ernst and Young were intending to hold any further training seminars for Audit Committee Members. The Manager (Govt. & Public Sector) replied that the seminars had been successful and that there were plans to organise others, probably two a year. She agreed to advise the Committee Clerk as soon as future dates had been firmed up.

RESOLVED: That the Local Government Audit Committee Briefing Paper be noted.

REASON FOR DECISION: To enable the Committee to comment on the Local Government Audit Committee Briefing Paper.

77 SHARED INTERNAL AUDIT SERVICES - UPDATE ON PROGRESS AGAINST THE 2017/18 AUDIT PLAN

The Client Audit Manager (SIAS) presented an update report on progress against the 2017/18 Audit Plan.

The Client Audit Manager advised that, since the issue of the report, four more draft audit reports had been issued. Paragraph 2.4 of the report summarised the Medium Priority Recommendations. He drew Members' attention to the one High Priority recommendation in respect of Cyber Security Incident Management.

The Client Audit Manager referred to the two audits which had been cancelled and the time budgets returned to contingency, as set out in Paragraph 2.8 of the report. Some of these days had been allocated to the Fees and Charging Benchmarking and Monitoring Officer Review audits.

Wednesday, 21st March, 2018

The Client Audit Manager updated the performance figures set out in the table at Paragraph 2.13 of the report. 89% of planned days had been delivered (340.5 days out of 382 days) and 81% of planned projects had been completed (29 out of 36), both of which were significant improvements upon the March figures reported in the previous year (2016/17). He confirmed that enough work would be completed by the end of the year in order to enable SIAS to provide an annual assurance opinion, and work not completed by 31 March 2018 would be prioritised for completion in April/May 2018, in time for the closure of accounts.

The Client Audit Manager explained that Appendix A to the report outlined progress against the 2017/18 Audit Plan; Appendix B provided the Committee with the detail of the Cyber Security Incident Management High Priority recommendation; and Appendix C was the timetable of Audit Plan items for 2017/18.

In respect of the Cyber Security Incident Management High Priority recommendation, the Head of Revenues, Benefits and IT confirmed that the required procedure document would be drafted by the implementation date of 31 May 2018.

With regard to the Income Generation audit report, a Member commented that this contained a great deal of useful information. He therefore asked that this be circulated to all Members of the Committee, with a view to a possible discussion of the paper at the next meeting.

RESOLVED:

- (1) That the Internal Audit Progress report for the period to 2 March 2018 be noted;
- (2) That the proposed amendments to the 2017/18 Annual Audit Plan be noted; and
- (3) That the implementation status of high priority recommendations be noted.

REASON FOR DECISION: To allow the Committee to review, comment and challenge the current status of the Internal Audit Plan.

78 NHDC AUDIT PLAN FOR 2018/19

The Client Audit Manager (SIAS) presented a report in respect of the proposed North Hertfordshire District Council Audit Plan for 2018/19.

The Client Audit Manager advised that the methodology for the Plan contained elements of National and Local Horizon Scanning; consideration of risk management arrangements; gathering intelligence from officers; and best practice from other SIAS partner authorities. The Client Audit Manager had discussed potential areas of audit coverage with each Head of Service and had agreed scopes for the various projects proposed for 2018/19 audits.

The Client Audit Manager referred to the 10% reduction in audit days for 2018/19, both for NHDC and the other SIAS partners. The table at Paragraph 2.8 of the report showed the estimated allocation of the total number of audit days for 2018/19 compared to 2017/18.

The Client Audit Manager commented that the SIAS Performance Indicators for 2018/19 remained the same as for 2017/18. Appendix A to the report detailed the proposed audits for 2018/19, including the proposed outline scopes and reasons for inclusion in the Plan. This was always subject to change, with any significant changes being brought to the attention of the Committee. Appendix B showed the reserve audit list and Appendix C showed the audit start dates agreed with management.

The Client Audit Manager answered a number of Members' questions on the Plan.

RESOLVED: That the proposed NHDC Internal Audit Plan for 2018/19 be approved.

REASON FOR DECISION: To ensure that the Committee was aware of the proposed NHDC Internal Audit Plan for 2018/19.

79 SHARED ANTI-FRAUD SERVICES (SAFS) - PROPOSED ANTI-FRAUD PLAN FOR 2018/19

The Shared Anti-Fraud Service (SAFS) Manager presented a report in respect of the proposed SAFS/NHDC Anti-Fraud Plan 2018/19; and a brief update on the 2017/18 Plan.

The SAFS Manager advised that there were two appendices to the report. Appendix A was the Local Government Association Councillor's Workbook on Bribery and Fraud Prevention; and Appendix B was the proposed 2018/19 Action Plan.

In respect of the 2017/18 Plan, the SAFS Manager advised that in the first three quarters 149 cases were reported to SAFS for investigation from staff, the public, data matching and other sources. Of the 75 cases where action had been taken, financial savings of £96,000 and fraud losses of £308,000 had been identified, and a further £54,000 in social security benefit fraud had been identified through joint working with the Department of Work and Pensions (DWP). In addition, the Council would receive 40% subsidy from the DWP for identifying and seeking to recover housing benefit losses. At the time of writing the report, this subsidy would be £94,000 for 2017/18 for NHDC. Paragraph 2.8 of the report summarised one of the successful prosecutions carried out by SAFS.

The SAFS Manager commented that the 2018/19 Plan was similar to the 2017/18 Plan. Whilst it had an emphasis on Revenues and Benefits fraud, the intention was to expand into other service areas. SAFS's fees would be kept at the 2017/18 level, and NHDC would have access to a dedicated full-time Fraud Investigator. There would be a Fraud Awareness e-learning training module for staff and Members. The main difference in the Key Performance Indicators for 2018/19 was an increased target of £150,000 (from £100,000) in the identified value of fraud prevented/detected.

In reply to a question regarding the above KPI target, the SAFS Manager stated that the target had been set at this level as a baseline across the various SAFS partner authorities. The high performance of NHDC in this area during 2017/18 was in the large part due to the skills of an experienced Benefits Assessor who had identified a large number of fraud cases due to close liaison with SAFS and an extensive data matching exercise.

The Committee felt that the Local Government Association (LGA) Councillors' Workbook on Fraud and Bribery Prevention 2017 document was an easy to follow guide and agreed that it be sent to all Members of the Council.

In relation to the amount of fraud loss that was actually recovered, the SAFS Manager undertook to provide a report on this matter every quarter detailing every fraud loss case to the Head of Revenues, Benefits and IT, and then he would be requested to report to the Head of Finance, Performance and Asset Manager as Section 151 Officer on recovery against each of those individual losses.

RESOLVED:

- (1) That the report be noted;
- (2) That the proposed SAFS/NHDC Anti-Fraud Plan 2018/19 be approved; and
- (3) That the Local Government Association (LGA) Councillors' Workbook on Fraud and Bribery Prevention 2017 be noted, and provided to all Members of the Council.

REASON FOR DECISION: To enable the Committee to monitor the progress and development of SAFS and to keep Members advised on current fraud matters.

80 RISK MANAGEMENT UPDATE

The Head of Finance, Performance and Asset Management presented a report which provided an update on Risk Management.

In respect of the Office Accommodation Corporate Risk, the Head of Finance, Performance and Asset Management advised that, in February 2018, Officers had reviewed this risk and reduced the likelihood risk score to "Low" (1). This was to reflect the fact that the project was almost complete, and that staff were already being returned to the District Council Offices. It was agreed that the risk entry should not be closed until a post implementation review had been completed and lessons learned had been captured. This proposed change would move the Office Accommodation risk from a 5 to a 3 on the Risk Matrix.

The Head of Finance, Performance and Asset Management reported that the Waste and Street Cleansing Contract Renewal Corporate Risk (and sub-risks) had also been reviewed. Whilst the scores for a number of the sub-risks had changed, the overall score for the Corporate Risk remained unchanged as an 8 on the Risk Matrix.

Following a recent re-tendering exercise, the Head of Finance, Performance and Asset Management outlined the key changes to the various insurance policies that the Council had in place, as set out in Section 8.4 of the report.

RECOMMENDED TO CABINET: That the reduction in score from a 5 to a 3 of the Office Accommodation Corporate Risk be approved.

REASON FOR DECISION: To comply with the requirements of the Risk and Opportunities Management Strategy.

81 LOCAL CODE OF CORPORATE GOVERNANCE AND ANNUAL GOVERNANCE STATEMENT ACTIONS (PLAN 2016/17) UPDATE

The Acting Corporate Legal Manager presented a report which provided an update on the Local Code of Corporate Governance and Annual Governance Statement Actions (Plan 2016/17).

The Acting Corporate Legal Manager referred to a document she had tabled, which showed the amendments from the previous year's Code of Corporate Governance in red as tracked changes. The amendments were relatively minor.

The Acting Corporate Legal Manager advised that it was recommended good practice to review the Code annually, based on the latest CIPFA/SOLACE Guidance. If adopted, the Code would form part of the framework against which the Annual Governance Statement was measured.

The Acting Corporate Legal Manager explained that the report also contained an update on the Annual Governance Statement Action Plan. A significant number of Actions were recommended to be carried forward for the reasons set out in the Plan.

RESOLVED:

- (1) That the Local Code of Corporate Governance 2018, as attached at Appendix A to the report, be approved; and
- (2) That the current position with the Annual Governance Statement Action Plan and any carry forward actions, as set out in Appendix B to the report, be noted.

REASON FOR DECISION: To provide the Committee with assurance that it is following through with its commitment to improve its governance arrangements; and to ensure the Local Code of Corporate Governance remains up to date and relevant.

82 THIRD QUARTER REVENUE MONITORING 2017/18

The Head of Finance, Performance and Asset Management presented a report in respect of Third Quarter Revenue Budget Monitoring for 2017/18.

The Head of Finance, Performance and Asset Management advised that Table 2 in the report provided a summary of the forecast budget variances, as at the end of the Third Quarter. He commented that the item relating to Parking Services (Lines and Signs Maintenance Works) had been amended so that the whole of the £55,000 variance was proposed to be carried forward into 2018/19.

The Head of Finance, Performance and Asset Management referred to Table 3 in the report, which identified the forecast level of unallocated Area Committee funds at the end of 2017/18. It would be a matter for Cabinet to decide whether or not these funds should be carried forward into 2018/19.

The Head of Finance, Performance and Asset Management answered a number of Members' questions regarding the report.

In respect of the Area Committee unallocated funds issue, the Committee agreed that the Cabinet should be requested and encouraged to carry forward these unallocated funds from 2017/18 into 2018/19.

RESOLVED: That the Third Quarter Revenue Budget Monitoring report for 2017/18 be noted.

RECOMMENDED TO CABINET: That Cabinet be requested and encouraged to carry forward the unallocated Area Committee funds from 2017/18 into 2018/19

REASON FOR DECISION: To provide an opportunity for the Committee to comment as appropriate on the Third Quarter Revenue Budget Monitoring report for 2017/18.

83 THIRD QUARTER CAPITAL MONITORING 2017/18

The Head of Finance, Performance and Asset Management presented a report in respect of Third Quarter Capital Monitoring for 2017/18.

The Head of Finance, Performance and Asset Management referred to Table 2 of the report, which included the capital schemes that were planned for 2017/18, but which had been re-profiled into 2018/19. The most significant item related to the waste and street cleansing vehicles for the new joint waste contract commencing in May 2018. The vehicles were being bought by the new waste contractor, but under accounting rules there may be a requirement for the Council to capitalise those costs.

The Head of Finance, Performance and Asset Management drew attention to Table 3 of the report, which showed new schemes or variations to existing schemes. He commented that the purchase of kitchen caddies under the new waste contract made reference to the purchase of caddy liners. This was incorrect, as the expenditure only related to the caddies themselves. Table 4 showed how the Council proposed to fund the Capital Programme. At the end of 2017/18, there was a forecast balance of £11.6Million. However, dependant on the timing of any capital receipts received, it was possible that the Council's capital resources could be exhausted by the end of 2018/19.

RESOLVED: That the Third Quarter Capital Monitoring report for 2017/18 be noted.

REASON FOR DECISION: To provide an opportunity for the Committee to comment as appropriate on the Third Quarter Capital Programme Monitoring report for 2017/18.

84 TREASURY MANAGEMENT THIRD QUARTER 2017/18

The Head of Finance, Performance and Asset Management presented a report in respect of Third Quarter Treasury Management Monitoring for 2018/18.

The Head of Finance, Performance and Asset Management advised that there had been a small change to the amount of forecast interest to be generated by year end ((£324,000, an increase of £4,000 on the working budget). He confirmed that the Council had generated interest of £255,000 during the first nine months of 2017/18.

RESOLVED: That the Third Quarter Treasury Management Monitoring report for 2017/18 be noted.

REASON FOR DECISION: To provide an opportunity for the Committee to comment as appropriate on the Third Quarter Treasury Management Monitoring report for 2017/18.

85 STATUTORY GUIDANCE ON LOCAL GOVERNMENT INVESTMENTS

The Head of Finance, Performance and Asset Management presented a report which provided details of the statutory guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG) on Local Government Investments.

The Head of Finance, Performance and Asset Management advised that previous legislation required that an Authority should have a Treasury Strategy that was approved each year by the Council. Any change to that strategy would require a report back to Council. The new guidance effectively termed this an Investment Strategy and extended the definition of what this should cover to also include:

- non-financial assets that the organisation held primarily or partially to generate a profit; for example, investment property portfolios;
- loans made to a wholly-owned trading company, a joint venture or a third party.

It was noted that the Council had a portfolio of historic investment properties which were generally ground leases on industrial units. It also currently had a loan to Herts Building Control which was to help set it up.

The Head of Finance, Performance and Asset Management stated that the requirements in relation to treasury investments were unchanged and required an assessment of Security, Liquidity and Yield, in that order of importance. For all other investments there was a requirement to show:

- How they contributed towards the objectives of the Council and/or how they contributed towards the place making role of the Council;
- Through quantitative indicators, an assessment of the Council's risk exposure. This should include the rate of return (yield) and where they were funded from borrowing the cost of that debt.

The Head of Finance, Performance and Asset Management summarised the other key new requirements in the Guidance, as set out in Paragraphs 8.4 to 8.11 of the report.

On a separate matter, the Head of Finance, Performance and Asset Management advised the Committee that he was intending to arrange some risk training for new and existing Members, and stated that it would be on either 25 and 26 June 2018.

RESOLVED: That the contents of the report be noted.

REASON FOR DECISION: To familiarise Members with the statutory guidance on Local Government Investments issued by the MHCLG.

86 FUTURE MEETING - POSSIBLE AGENDA ITEMS

The Chairman undertook to further liaise with the Chairman of the Overview and Scrutiny Committee regarding the process for scrutinising and reviewing the emerging Parking Strategy; and similarly for scrutinising and reviewing the activities of the Cabinet Sub-Committee (Local Authority Trading Companies' Shareholder).

The meeting closed at 9.13 pm

Chairman