

NORTH HERTFORDSHIRE DISTRICT COUNCIL

FINANCE, AUDIT AND RISK COMMITTEE

**MEETING HELD IN THE FIRST FLOOR ROOMS 2/3, COUNCIL OFFICES,
GERNON ROAD, LETCHWORTH GARDEN CITY
ON MONDAY, 18TH JUNE, 2018 AT 7.30 PM**

MINUTES

Present: *Councillors Councillor Terry Hone (Chairman), Councillor Simon Harwood (Vice-Chairman), Ian Albert, Kate Aspinal and Ian Moody.*

In Attendance: *Ian Couper (Service Director - Resources), Antonio Ciampa (Accountancy Manager), Reuben Ayavoo and Ian Gourlay (Committee and Member Services Manager).*

Also Present: *Councillors Julian Cunningham (Executive Member for Finance and IT) and Helen Oliver.
1 member of the public.*

1 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Terry Tyler.

2 MINUTES - 21 MARCH 2018

RESOLVED: That the Minutes of the Meeting of the Committee held on 21 March 2018 be approved as a true record of the proceedings and be signed by the Chairman.

3 NOTIFICATION OF OTHER BUSINESS

There was no other business notified.

4 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 she 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 reminded Members that, in line with the Code of Conduct, any Declarations of Interest needed to be declared immediately prior to the item in question.

5 PUBLIC PARTICIPATION

There was no public participation.

6 ANNUAL EXTERNAL AUDIT AND CERTIFICATION FEES 2018/19

The Committee considered the report from Ernst and Young in respect of the Annual External Audit and Certification Fees 2018/19.

The Committee was informed that, following consultation on its Work Programme and Scale of Fees, Public Sector Audit Appointments Ltd (PSAA) had reduced the scale audit fee for all opted-in bodies by 23% from the fees applicable in 2017/18. The indicative 2018/19 external audit for NHDC was therefore £40,068.

The Service Director – Resources commented that the reason why the report contained no figure for the Certification Fees was that this work was now subject to a separate procurement process. The outcome of this procurement process would be reported to the Committee in due course.

RESOLVED: That the Annual External Audit and Certification Fees 2018/19 be noted.

REASON FOR DECISION: To keep the Committee informed of the level of External Audit and Certification Fees for 2018/19.

7 THE EFFECTIVENESS OF THE FINANCE, AUDIT AND RISK COMMITTEE 2017/18

The Client Audit Manager (SIAS) presented a report on the effectiveness of the Finance, Audit and Risk Committee.

The Client Manager (SIAS) referred to Section 4 of the report, entitled “Looking Ahead”. In looking forward to 2018/19 and beyond and given the significant financial and other pressures the Council faced, the importance of an effective Audit Committee was crucial. With this in mind, the intention was to complete a more thorough review of the effectiveness of the Committee in future years. It was proposed that this would involve Member engagement and consultation on the work of the Committee.

The Committee was supportive of the actions proposed in the report, including the action relating to Members completing a skills self-awareness exercise to identify areas of strength and training needs. In respect of the latter point, the Chairman encouraged all Members to attend the Risk Management training session arranged to take place on Monday, 25 June 2018. In respect of the Peer review action, it was felt that this might be best addressed by way of a possible overall Peer review of all of the Audit Committees in the SIAS partnership.

RESOLVED: That, in respect of the proposed actions recommended by SIAS to ensure ongoing compliance with CIPFA best practice and to maximise the effectiveness of the Finance, Audit and Risk Committee, the following be supported:

(i) Learning and Development

- All Members complete a skills self-assessment to identify areas of strength and training needs;
- A training programme is developed to address any weaknesses in the Committee or training needs identified;
- An induction programme is implemented for all new Members.

(ii) Committee Business

- At the next review of the terms of reference, the Council should consider including a “Statement of Purpose” for the Committee (as per the guidance in CIPFA’s ‘Audit Committees – Practical Guidance for Local Authorities and Police 2018 edition’);
- Proposed agendas are scrutinised by Democratic Services and the Chairman of the Committee to confirm that they are risk-based, focussed and manageable;

- Information presented to the Committee in a format that allows Members to focus on key risks, internal controls and governance issues which may impact on the Council's ability to meet its objectives;
- Members challenge processes, as appropriate, to ensure there is an appropriate balance between risk and control.

(iii) Communication

- Regular meetings are held outside the committee schedule between the Chairman of the Committee and Committee contributors (officers).

(iv) Overall Committee Effectiveness

- Members to complete the self-assessment of effectiveness included in CIPFA's 'Audit Committees – Practical Guidance for Local Authorities and Police 2018 edition';
- Members to consider a Peer review to assess the effectiveness of the FAR Committee (but only as part of a possible overall Peer review of all of the Audit Committees in the SIAS partnership).

REASON FOR DECISION: To ensure that the Council complies with the requirement that an Audit Committee reviews its own effectiveness.

8 ANNUAL ASSURANCE STATEMENT AND INTERNAL AUDIT REPORT 2017/18

The Client Audit Manager (SIAS) presented the Annual Assurance Statement and Internal Audit Report 2017/18.

In respect of the Annual Assurance Statement, the Client Audit Manager (SIAS) advised that a self-assessment exercise had been carried out against the Public Sector Internal Audit Standards (PSIAS). Two areas of agreed non-conformance had been identified, as set out in Appendix C to the report. However, the "generally conforms" conclusion was the highest rating, and meant that SIAS had a charter, policies and processes assessed as conformant to the standards and was consequently effective.

The Service Director – Resources confirmed that, during the year, no matters had threatened the independence of SIAS, and that SIAS had not been subject to any inappropriate scope or resource limitations. SIAS had provided an overall opinion of "Substantial Assurance" in respect of the Council's Financial and Non-Financial Systems.

In relation to Performance Indicators, the Client Audit Manager (SIAS) was pleased to report that the target of 95% of planned days had been met, and the target of 95% of planned projects had an actual outturn of 94%.

The Client Audit Manager (SIAS) briefly referred to the appendices to the report, namely Appendix A – Audit Plan final position; Appendix B – Definitions of Assurance and priority levels of recommendations; Appendix C – Agreed Non-conformance areas; and Appendix D – Audit Charter 2018/19.

RESOLVED:

- (1) That the Annual Assurance Statement and Internal Audit Report 2017/18 be noted;
- (2) That the results of the self-assessment, as required by both the Public Sector Internal Audit Standards (PSIAS) and the Quality Assurance and Improvement Programme (QAIP) be noted;

- (3) That the SIAS Audit Charter be accepted; and
- (4) That the assurance from management that the scope and resources for internal audit had been subject to no inappropriate limitations in 2017/18 be noted.

REASON FOR DECISION: To review and note the Annual Assurance Statement and the Internal Audit Annual Report for 2017-2018.

9 **SHARED INTERNAL AUDIT SERVICES - UPDATE ON PROGRESS AGAINST THE 2018/19 AUDIT PLAN**

The Client Audit Manager (SIAS) presented an update report on progress against the 2018/19 Audit Plan, up to 4 June 2018.

The Client Audit Manager (SIAS) advised that ten 2017/18 and two 2018/19 final audit reports had been issued since the last meeting of the Committee. Since the report had been written, one further final report (on Health and Safety) had also been issued. Six Medium Priority recommendations, resulting from two audits, made during the period were summarised in the report. No new High Priority recommendations had been made.

The Client Audit Manager (SIAS) stated that the Commercialisation audit had been cancelled as the work was no longer required. As a result, the contingency in the 2018/19 stood at 11 days.

In terms of performance, the Client Audit Manager (SIAS) updated the report by advising that 17% of Planned Audit days and 15% of Planned Projects had been completed.

The Client Audit Manager (SIAS) referred to Appendix D to the report, which set out the new assurance levels of "Good"; "Satisfactory"; "Limited"; and "No", and a new Priority Level for Corporate (as opposed to Service) risk of "Critical".

In response to a Member's question, the Client Audit Manager (SIAS), assisted by the Service Director – Resources, explained the Medium Priority recommendation concerning the Business Improvement Districts.

RESOLVED:

- (1) That the Internal Audit Progress Report for the period to 4 June 2018 be noted;
- (2) That the proposed amendments to the 2018/19 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.

10 **RISK MANAGEMENT UPDATE AND ANNUAL REPORT ON RISK MANAGEMENT 2017/18**

The Service Director - Resources presented a report which provided an update on Risk Management and the Annual Report on Risk Management 2017/18.

The Service Director - Resources advised that, in February 2018, officers had reviewed the "Waste – Depot/Transfer Station" sub-risk and increased the likelihood risk score to "High" (3). This was to reflect the emerging issues relating to the installation of a Fire Suppression System and the Environment Agency permit/licence at the Buntingford Depot. The proposed change would move the Waste sub-risk from an 8 to a 9 on the Risk Matrix.

In respect of the “Waste – Food and Garden Waste” sub-risk, the Service Director - Resources commented that, in February 2018, officers had created a new sub-risk for the Waste and Street Cleansing Contract renewal with a score of 5. This was to reflect the introduction of charging for Garden Waste, which commenced on 9 May 2018.

The Committee noted that the overall risk for the Waste and Street Cleansing Contract renewal remained unchanged as an 8 on the matrix.

The Service Director - Resources referred to the Annual Report on Risk Management 2017/18, as attached at Appendix B to the report. He summarised the significant changes to the Top Risks which had occurred throughout the year, and drew attention to the achievements against the Risk management Action Plan for 2017/18.

It was noted that, when the Risk Management Group met next, there was a strong possibility that the Office Accommodation risk would be removed from the matrix now that the move back to the District Council Offices had been completed.

In response to a request from the Chairman, the Service Director – Resources undertook to report back to the Committee following the outcome of a review of the Risk Management Group’s structure and terms of reference.

RECOMMENDED TO CABINET:

- (1) That the increase in the score for the “Waste – Depot/Transfer Station” sub-risk from an 8 to a 9 be approved;
- (2) That a new “Waste – Food and Garden Waste” sub-risk, with a score of 5, be approved;
- (3) That the overall score for the Waste and Street Cleaning Contract renewal” risk remain unchanged at a score of 8; and
- (4) That the Annual Report on Risk and Opportunities Management 2017/18, as set out at Appendix B to the report, be supported and referred to Council for approval.

REASON FOR DECISION: To comply with the Risk and Opportunities Management Strategy, which stipulates that an Annual Risk Management report is taken to Council.

11 FINANCE, AUDIT AND RISK COMMITTEE ANNUAL REPORT 2017/18

The Committee received the Finance, Audit and Risk Committee Annual Report for 2017/18, prepared by the Chairman of the Committee (Councillor Terry Hone). The Chairman referred to the various sections in the report regarding the role of the Committee; its effectiveness; the types of reports submitted to meetings; main achievements; and planned work for 2018/19.

In response to a Member’s query, the Service Director undertook to circulate to Committee Members the dates of future meetings of the Risk Management Group.

RECOMMENDED TO COUNCIL: That the Annual Report of the Finance, Audit and Risk Committee 2017/18 be noted.

REASON FOR DECISION: To comply with the requirements of the Council’s Constitution.

12 DRAFT ANNUAL GOVERNANCE STATEMENT 2017/2018

The Senior Policy Officer presented a report in respect of the Draft Annual Governance Statement (AGS) 2017/18. The draft AGS was included as Appendix A to the report.

The Senior Policy Officer advised that the draft AGS had been prepared following an in-depth review/input and scoring by SMT against the CIPFA/SOLACE Framework 2016 Principles. The conclusion against the Principles was the AGS had achieved a "Substantial" Assurance level. The format of the document was similar to 2016/17 version.

The Committee's comments on the draft AGS and Action Plan, as set out in the resolution below, would be investigated and, if possible, incorporated into the final version of the document for consideration at the July 2018 meeting.

RESOLVED: That the draft Annual Governance Statement Action Plan for 2017/18 be noted, and the following comments of the Committee, if possible, be incorporated into the document in order for it to be finalised for approval in July 2018:

- Principle E – inclusion of a statement/reference to the Gender Pay Gap;
- Information Commissioner's Office (ICO) – investigation as to the content of the outstanding ICO decision and whether it will be determined under the Data Protection rules prevailing at the time or the new General Data Protection regulations (GDPR); and
- Updating throughout the AGS and Action Plan to reflect correct Executive Member/Officer job titles/designations.

REASON FOR DECISION: To offer Members of the Committee the opportunity to assess and comment on the Annual Governance Statement before it is finalised; and to provide the Committee with assurances that NHDC is examining and, where necessary, improving its governance arrangements.

13 REVENUE BUDGET OUTTURN 2017/18

The Accountancy Manager presented the report of the Service Director - Resources in respect of the Revenue Budget Outturn 2017/18, and advised that the report was before this Committee for consideration prior to presentation to Cabinet on 19 June 2018.

The Accountancy Manager advised that, at year end, there had been an underspend against the working budget of £422,000. Part of that was due to projects which had not completed by the end of the year, and hence £261,000 was requested to be carried forward to fund these projects in 2018/19. There was a further forecast impact on the 2018/19 budget of an increase of £85,000.

The Accountancy Manager referred to Table 2 in the report, which summarised the significant variances. As detailed in paragraph 8.3, the Council had overachieved on its efficiencies target for 2017/18 of £929,000 by £286,000, primarily due to increased planning income. Table 3 in the report set out the unspent Carry forward Budgets in 2017/18, which showed that a total of £473,000 of the budget carried forward had not been spent.

In respect of the Council's Corporate Financial Health Indicators, the Accountancy Manager commented that the Planning Application Fees and Parking Penalty Charge Notices were at green status, but the Land Charges income and Car Parking fees were at red status, as set out in Table 4 in the report.

The Accountancy Manager explained that, at the end of 2017/18, there was a surplus on the NHDC share of the Council Tax Collection fund of £257,000 and a deficit on the Business Rates Collection Fund of £624,000. The deficit would be funded from the grants that the Council received for Business rate reliefs.

The Committee was informed that the notional amount calculated at the start of the year for known risks was £795,000, and at the end of the year a total of £451,000 had come to fruition.

The Accountancy Manager drew attention to Table 7 in the report, regarding Earmarked Reserves, the balance of which was recommended to increase from £4.609million at the beginning of the year to £5.679million at the end.

In respect of Table 3 in the report, which outlined the unspent Carry Forward budgets in 2017/18, the Committee noted that a number of these had been further recommended for carry forward to 2018/19. The Committee therefore agreed that Cabinet be requested to ensure that each item in the list was challenged robustly if further carry forward was requested, with each item being accompanied by an acceptable justification as to why it should be carried forward, in the realistic expectation that the budget would be spent.

RESOLVED: That the Revenue Budget Outturn 2017/18 report be noted.

RECOMMENDED TO CABINET: That, in respect of Table 3 in the report, which outlined the unspent Carry Forward budgets in 2017/18, it be ensured that each item in the list is challenged robustly if further carry forward is requested, with each item being accompanied by an acceptable justification as to why it should be carried forward, in the realistic expectation that the budget would be spent.

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

14 CAPITAL PROGRAMME OUTTURN 2017/18

The Accountancy Manager presented the report of the Service Director – Resources in respect of the Capital Programme Outturn 2017/18, and advised that the report was for consideration prior to presentation to Cabinet on 19 June 2018.

The Accountancy Manager advised that there had been a total Capital spend of around £9.5million, approximately £1.5million less than forecast at the end of the Third Quarter. The majority of this figure related to re-profiled schemes.

The Accountancy manager explained that Table 2 in the report identified the more significant amounts in respect of the re-profiled projects. Table 3 detailed the projects where the amount spent had changed.

The Accountancy Manager referred to paragraph 8.5 of the report, which listed the Capital projects completed in 2017/18, and Table 4 provided a breakdown of how Capital Programme was funded (through useable capital receipts, set aside receipts, Section 106 receipts, and other third party grants and contributions).

Members commented that there were expected to be Capital monies available to fund the 2018/19 programme, but that Capital funds would be likely to be depleted within the next few years. The Committee therefore agreed that, in view of this situation, Cabinet be recommended to ensure that regular scrutiny of the Capital Programme is carried out.

RESOLVED: That the Capital Programme Outturn 2017/18 report be noted.

RECOMMENDED TO CABINET: That, in view of the fact that Capital funds are likely to be depleted within the next few years, it be ensured that regular scrutiny of the Capital Programme is carried out by the Cabinet.

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

15 ANNUAL TREASURY MANAGEMENT REVIEW 2017/2018

The Service Director - Resources presented a report in respect of the Annual Treasury Management Review 2017/18, and advised that the report was for consideration prior to presentation to Cabinet on 19 June 2018.

The Service Director - Resources advised that the Council had generated £0.344million of interest from its investments in 2017/18. The Council had repaid £0.025million of borrowing during the year as it had matured, and had £0.455million of remaining borrowing, at a fixed rate for a fixed period. The premium incurred from repaying this borrowing early meant that it was not worthwhile to do so.

The Service Director – Resources commented that, whilst the Council had complied with its legislative and regulatory requirements throughout the year, there had been three minor breaches of the limit set on the percentage that could be invested with a single counterparty. He would be introducing processes aimed at ensuring that there would be no repeat of such breaches.

The Service Director – Resources stated that the forecast for 2018/19 was that investment income would continue to reduce, due to both market conditions and the use of cash balances to fund the Capital Programme.

RESOLVED: That the Annual Treasury Management Review 2017/18 be noted.

REASON FOR DECISION: To provide an opportunity for the Committee to comment as appropriate on the Annual Treasury Management Review 2017/18.

16 FUTURE MEETING - POSSIBLE AGENDA ITEMS

The Service Director – Resources confirmed that he expected that the review of the Council's Corporate Procurement Rules would take place in the late summer 2018 and proposals for a review of a Capital Strategy for 2019/20 onwards would take place in the early autumn 2018.

In respect of the responsibility for consideration of reports relating to the Car Parking Strategy and Cabinet Shareholder Sub-Committee, the Service Director – Resources confirmed that, whilst these issues contained financial implications, the Overview and Scrutiny Committee would be the appropriate forum for the consideration of such matters. However, it would be possible for the Finance, Audit and Risk Committee to contribute to the workings and figures in the Medium Term Financial Strategy and through the Draft Budget.

The meeting closed at 8.59 pm

Chairman