

Minutes of the Audit & Governance Committee held at Riverside, Lowestoft on
Thursday, 14 September 2017 at 6.00pm

3b

Audit & Governance Committee Members Present:

S Woods (Chairman), E Back, S Barker and L Smith.

Other Members Present:

B Provan (Cabinet Member for Resources)

Officers Present:

C Bing (Legal Services Manager), P Gore (Head of Environmental Services & Port Health), H Javadi (Chief Finance Officer), P Langford (Emergency Planning Officer), S Martin (Head of Internal Audit), A Photi (Democratic Services Officer), S Taylor (Finance Manager Compliance) and N Wotton (Democratic Services Manager)

Others Present:

Tony Poynton (Audit Manager Ernst & Young)

The Chairman welcomed everyone to the meeting.

1 APOLOGIES / SUBSTITUTES

Apologies were received from Councillors A Green, T Gandy, I Graham, M Barnard and M Rudd.

Councillor S Barker attended the meeting as a Substitute for Cllr A Green.

2 DECLARATIONS OF INTEREST

No declarations of interest were made.

3 MINUTES

RESOLVED

That the minutes of the meeting held on 15 June 2017 be approved as a correct record and signed by the Chairman.

4 CHANGE IN THE ORDER OF BUSINESS

With the consent of the Committee, the Chairman changed the order of business to enable the following item to be considered further up the Agenda:

Emergency Planning Update: Operation Barnett

5 EMERGENCY PLANNING UPDATE: OPERATION BARNETT

N.B. Councillor L Smith arrived during the consideration of this item, at 6.10pm.

The Head of Environmental Services and Port Health introduced the Emergency Planning Update Report on Operation Barnett.

It was noted that on 15 March 2017 the Audit & Governance Committee received a report on the East Coast tidal surge and Operation Barnett, the emergency response to the threat of flooding. The Council had delivered an effective and robust emergency response to the tidal surge in January 2017, however with all emergency operations and exercises there was further learning and scope for improvement. The purpose of the report was to provide Committee with an update on the progress and action plan.

The Emergency Planning Officer presented the East Suffolk Council's post event action plan and summarised the key actions undertaken post Operation Barnett which were as follows:

- Lowestoft Temporary Flood Barrier - A new annex to the Suffolk Resilience Flood Plan covering the Lowestoft Temporary Flood Barrier was issued in autumn 2017.
- Engagement with Community Emergency Groups - Joint emergency response arrangements have been revised and were put in place summer 2017 to allow for Community Emergency Groups to be warned of potential incidents and to reinforce links with the East Suffolk Emergency Control Room.
- Evacuation - Joint Emergency Response arrangements for evacuation to Rest Centres were being updated by the Joint Emergency Planning Unit to reflect growing potential for community based solutions and would be in place by the end of 2017. Village Halls would be utilised to improve reactions locally and there would be bespoke evacuation plans for local communities in known flood areas.
- East Suffolk Council Volunteers - The East Suffolk Council Emergency Preparedness Forum had reviewed the approach for training and generation of staff needed to support an emergency response.
- Riverside Offices - The Riverside building was identified as being in a flood zone. Flood resilience measures have been confirmed and the Emergency Control centre at East Suffolk House would be used in the future, to coordinate the emergency response to a flooding incident, if the Riverside Road site was at risk. Various safeguards had been put in place to date, such as raised floor levels, a stand by generator placed on a plinth and flood resilient cladding.
- Emergency Control Centre – Joint Emergency Response Plans for both response centres had been reviewed.
- Flood Protection Policy – A communications plan to support the revised flood protection policy was put in place in May. The development of a leaflet aimed at informing all vulnerable properties in Waveney and Suffolk Coastal was in progress. The Council had made a £106k claim to the Department for Communities and Local Government under the Bellwin Scheme, to reclaim the costs incurred during Operation Barnett.

A Member commented that one of the greatest concerns was people leaving medical supplies behind in the event of being evacuated from their homes, and she hoped that the new leaflet would cover guidance in this aspect, as well as an explanation of how flooding

enters the home both externally and via internal inlets. The Emergency Planning Officer advised that the leaflet stressed the importance of people taking their medication with them in the event of an evacuation, however evacuation was commonly last minute and rushed, therefore this aspect could often be overlooked in the panic. Medical teams visited rest centres but services were spread very thinly, therefore there was no fail safe solution to this issue.

The Chairman commented that the review was very positive in highlighting what further learning was required and was pleased to see things progressing.

RESOLVED

That progress with the action plan arising from the review of Operation Barnett be noted.

5 AUDIT RESULTS REPORT

The Cabinet Member for Resources introduced the report by the External Auditors, Ernst & Young LLP (EY), of the Audited Results. The Comptroller and Auditor General's Code of Audit Practice required Ernst and Young LLP (EY) to report to this Committee on the work they have carried out to discharge their statutory audit responsibilities, together with any governance issues identified. EY expected to issue an unqualified audit opinion and to conclude that the Council have made appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources. No significant issues had been identified to date.

The Cabinet Member for Resources brought The Letter of Representation from Management Appendix B to the Committee's attention and explained that this was to be signed by the Chief Finance Officer and the Chairman of this Committee.

The EY Audit Manager reminded Members that when the audit plan was presented to the Committee back in March 2017, the general audit plan was set out which included two significant roles;

- I. To give the express opinion on the Council's financial statements
- II. To ensure the inclusion of "Value for Money" arrangements.

He commented that the working papers produced by the Council's finance team were of a high quality and had been submitted in advance of deadlines.

Two standard risks had been highlighted:

- I. Risk of Fraud in Revenue Recognition – the audit had not identified any material issues or unusual transactions to indicate any misreporting of the Authority's financial position.
- II. Management Override of Controls – the audit had not identified any weaknesses in controls, evidence of material management override, inappropriate judgements being applied or unusual transactions.

All areas of the Council's financial activity had been investigated and no issues for concern were highlighted.

The Expenditure and Funding analysis highlighted a minor issue with no concerns relating to a difference in the re-stated gross expenditure and gross income for the 2015/16 financial statements. This was due to a difference in the presentation of the financial statements, namely the grossing up of income and expenditure in cost centres that were previously recharged to other service areas on the basis of next costs to the Council. There were no amendments as a result. The Pension Valuation and Disclosure review had not identified any issues. A minor issue was identified in the Property Audit due to a valuation mistype; however this had not impacted on the general fund or the Housing Revenue Account.

The EY Audit Manager gave a summary by section of the Audit Results Report as follows:

- Section 3 Audit Report - No unusual findings.
- Section 4 Audit Differences - Two minor issues were identified
 - I. £2.37 million understatement of depreciation written back through the surplus/deficit on the provision of services
 - II. £2.37 million overstatement of depreciation written back through the revaluation reserve.

The Council had made the necessary amendments and therefore the issues were now closed.

- Section 5 Value for Money - The Medium Term Financial Strategy showed a cumulative forecast budget gap of £2 million, for the four years ending 31 March 2021. Given the scale of the budget gap, there was a risk that savings plans to bridge the gap was not robust and/or achievable. The audit findings showed however that this risk was manageable for the Council, given its level of useable reserves and therefore the Council was assessed to have adequate arrangements in place.

A Member asked if there would be added risks associated with the merger of the two Councils or if there would be a reduction in risks. The Chief Finance Officer wished to reassure the Committee that the Audit and Financial Teams were in continuous discussion regarding this subject. The transfer of assets to Lowestoft Town Council had delivered the potential to generate income and provided greater continuity in decision making. The potential benefits in savings relating to the merger were not however reflected in the report. Asset transfers had not been made with the objective of making savings, but had provided the opportunity to increase revenue, in areas which may have otherwise been at risk of being reduced.

The Chairman thanked the Finance Team and EY for all their hard work. The Chief Finance Officer thanked both teams for all they had achieved together, which was a direct result of the positive working relationship they had built.

RESOLVED

That the findings within the External Auditors report and the content of the Letter of Representation be noted.

6 AUDITED STATEMENT OF ACCOUNTS 2016/17

The Cabinet Member for Resources introduced the report and explained that the Accounts and Audit Regulations 2015 required the Council's Chief Finance Officer to sign the Accounts by no later than 30th June following the end of the financial year, certifying that they "present a true and fair view of the financial position of the Council at 31st March 2017 and of its income and expenditure for the year ending on that date".

Attached to the report was the updated Statement of Accounts for 2016/17, amended for the audit findings to date. Amongst other things it confirmed that there was a General Fund was balanced for the year. This was after taking account of £800k transferred to the In-Year Savings Earmarked Reserve, £244k transferred to the Transformation Reserve, £41k transferred to the Great Places Reserve and £35k transferred to the Carry Forward Requests Reserve for a number of activities which would be completed in 2017/18 if current budgets could not accommodate the expenditure. The General Fund Balance as at 31st March 2017 was £4.160m. The Housing Revenue Account (HRA) showed a surplus for the year of £1.949m, compared to a revised budget surplus of £930k, generating an additional surplus of £1.019m.

Since the time of the report being written, it had been concluded that the Council had successfully delivered its services within budget.

The Finance Manager (Compliance) explained that the Code of Practice had undergone some internal changes. The report presented the main highlights of the narrative report, updated Members on the audit work and commented on the anticipated outcomes arising from the 2016/17 audit.

He explained that the report reviewed the General Fund Outturn position for 2016/17 in greater detail than before and provided a summary of the key variances from the revised budget. The total Net Expenditure for 2016/17 was £9.710 million, £1.061 million less than the revised budget of £10.771 million. With a total of £10.830 million of funding from Government and local tax payers and after allowing for transfers to reserves, the Council had a balanced outturn position. The table provided gave a high level summary of the key outcomes.

The Chief Finance Office explained that at the start of the budget setting process, a budget gap had been identified; therefore tough and challenging targets had been set. The Council had not only delivered services within budget, but had managed to deliver a surplus. This had demonstrated that good financial management was in place and had put the Council in a position of taking advantage of the surplus in order to address the budget gaps for the following year. All in all it was a positive financial picture and showed that the Council continued to deliver value for money year on year.

A Member asked for clarification on the data relating to the political balance of the Council as stated on page 63 of the report and the average gross weekly earnings in Waveney, as they did not appear to correspond with current data. The Chief Finance Office explained that there were timing differences as the report was based on the previous year's data relating to mid 2015 statistics. More accurate and up to date data was very limited. With

regards to the political structure, she advised that she would check the data and confirm if the number of Labour Members at the time as stated in the report was correct.

RESOLVED

1. That the Statement of Accounts for 2016/17 and progress to date be noted.
2. That the Statement of Accounts be approved.
3. That should any minor amendments be required, the Chief Finance Officer, in consultation with the Chairman of the Audit & Governance Committee, be given Delegated Authority to make the changes.

The Chairman concluded by congratulating the Finance Team on their hard work. The narrative was a very positive and comprehensive addition to the reports.

7 ANNUAL GOVERNANCE STATEMENT 2016/17

The Cabinet Member for Resources introduced the report and explained that the Accounts and Audit Regulations 2015 required councils to produce an Annual Governance Statement by 30th September each year, in line with the conclusion of the Audit of the Statement of Accounts.

The Annual Governance Statement (AGS) was a key document that helped provide assurance to Members and other stakeholders as to how the governance of the Council was conducted, how effective it had been over the year. The AGS also identified major issues of concern raised by the Corporate Management Team and Head of Internal Audit, together with emerging issues upon which the Council would need to focus over the coming year.

RESOLVED

That the Annual Governance Statement for 2016/17 be approved.

N.B. Mr Poynton, Audit Manager for Ernst & Young left the meeting at this point in the proceedings at 6.50pm.

8 TREASURY MANAGEMENT OUTTURN AND MID YEAR REPORT FOR 2016/17

The Cabinet Member for Resources introduced the report which explained the Treasury Management Policy Statement for 2016/17, which required an annual report and mid year report to be produced by the 30th September 2017 and approved at Full Council.

The report reviewed performance of the Treasury Management Function including Prudential Indicators in 2016/17 and incorporated a mid year review of 2017/18.

The 2016/17 Summary included:

- Investments totalled £40.62m as at 31st March 2017.
- Interest received during the year totalled £248k.
- The Council maintained its policy of investing short term rather than longer term (greater than one year) due to market conditions.
- The Council operated within its approved Prudential Indicator Limits for 2016/17.

The 2017/18 Summary to date included:

- Investments totalled £46.9m as at 31st August 2017.
- Interest received to 31st August 2017 totalled £80.4k.
- The Council has operated within its approved Prudential Indicator Limits to date.

A Member asked what contingencies were in place in the event of an inflationary rise. The Chief Finance Officer explained that a number of economic factors had an impact on the Council's finances. Any reductions to borrowing rates would improve the Council's position, as the Council was fortunate to be in a position of being able to balance borrowing against savings.

RESOLVED

1. That the Annual Report on the Council's Treasury Management activity for 2016/17 incorporating the Mid Year review for 2017/18 be approved.
2. That the Prudential Indicators Outturn position for 2016/17 in Appendix A be noted.

9 CODE OF CORPORATE GOVERNANCE REVIEW

The Cabinet Member for Resources introduced the report, which explained the Chartered Institute of Public Finance and Accountancy (CIPFA) recommend an annual review of the Code of Corporate Governance as directed in the latest CIPFA/SOLACE 2016 publication entitled 'Delivering Good Governance in Local Government'.

The Code of Corporate Governance was last reviewed in September 2016. The main body of the Code remained unchanged, however the evidence attached had been refreshed to capture current frameworks and processes in operation. The refreshed list was attached as Appendix A for consideration by the Audit and Governance Committee; which fell within the Committee's terms of reference 'To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances'.

The Chairman wished to draw Committee Members attention to the document listing the Governance Assurance Corporate Framework Supporting the Seven Core Principals. He asked if Members wished to include any items which did not already appear which support the core principals. Members agreed that the list was comprehensive and that they had nothing to add at present.

RESOLVED

That the Audit and Governance Committee recommend the adoption of The Revised Code of Corporate Governance as presented in Appendix A to Full Council.

10 CORPORATE RISK MANAGEMENT UPDATE

The Cabinet Member for Resources presented the report which provided an overview and update on how the Council's strategic and operational risks were managed. Members were asked to make comment on the corporate strategic risks from the Council's current Corporate Risk Register, which was maintained by the Corporate Risk Management Group. Members were also asked to review the key risks on the register at regular intervals, and consider corporate risk management when they were planning any future work programmes.

The Finance manager (Compliance) provided an update on how strategic risk continued to be monitored and managed. Details were set out in the East Suffolk Corporate Risk Management Strategy which was approved at Audit and Governance Committee on 15th September 2016.

He explained that there had been much progress in managing risk through development including:

- The successful roll out of the Risk Management e-learning module.
- Further development and review of the Corporate Project Register was being undertaken and would be reported within the next East Suffolk Performance Report for Quarter Two (2017/18).
- Service plans were in place and available on FRED to allow for ongoing updates, monitoring and reporting on risks across the Councils.
- As part of the Risk Management Training Programme the Councils' insurance providers and advisors, Zurich Insurance Group, successfully delivered contract management training in June 2017.
- Project Management training was due to be held in December 2017 at each authority.

A Member asked if the Health and Safety risk management included the safeguarding of vulnerable people. The Finance Manager (Compliance) provided clarification that the Council had a safeguarding policy and the risk management of vulnerable groups was included within that.

The Chairman asked if there were any comments on the Corporate Risks section of the report. A Member asked if there was a timescale for improving the current ratings from Amber to Green. The Chief Finance Officer explained with every risk there were controlled mitigation measures to manage those risks. Some risks were unknown in terms of outcome, such as Brexit; therefore the Council could not always be specific in how to manage the unknown risks.

A Member asked for clarification with regards to "Failure to utilise Council assets to maximum benefit" which was categorised as C1, significant likelihood, catastrophic impact. The Finance Manager (Compliance) advised that this had been flagged by the Head of Internal Audit as a weakness in Asset Management. The Council did not have a

corporate strategy or formal policy in place however they were making significant steps forward on the commercial investment side.

The Chairman commented that the report was very positive overall, especially as only one item had been rated as a red risk.

RESOLVED

That the latest Corporate Risk Management Update be noted.

11 INTERNAL AUDIT CHARTER

The Cabinet Member for Resources presented the report which informed the Committee of the refreshed Internal Audit Charter, which was reviewed regularly to take into account any practical or best practice changes. The Internal Audit Charter was last reviewed on 15 September 2016 by the Committee. The only changes had been to insert a mission statement and definitions of the Board and Senior Management Team as required by the Public Sector Internal Audit Standards 2016.

The report was presented to the Committee to enable it to fulfil its terms of reference *“To review and approve the Internal Audit Charter to ensure that it was appropriate to the current needs of the organisation”*.

The Chairman asked for comments on the two additions:

- I. The Public Sector Internal Audit Standards (PSIAS) definition of the Board – The Audit Committee would perform the function of the Board.
- II. The Senior Management Team – There was not a specific definition of “Senior Management” within PSIAS. Consequently, Corporate Management Team (CMT) would perform the function of the Senior Management Team.

There were no further comments.

RESOLVED

That the refreshed Internal Audit Charter attached at Appendix 1 be noted.

12 STANDARDS REVIEW, INCLUDING DECLARATIONS OF GIFTS/HOSPITALITY AND COMPLAINTS RECEIVED

The Legal Services Manager presented the report which gave an update on standards related matters and offers of gifts / hospitality received by Members and Officers. The report updated Members on complaints and hospitality and the Register of Interest which were available to view online. It was explained that there was an error in paragraph 4 which should have read that *“Of the remaining four complaints, these related to a District Council”* and not a *“Parish Council”*.

A Member asked if all complaints relating to Lowestoft Town Council and Oulton Broad would go to the Head of Legal and Democratic Services as a matter of course. The Legal Services Manager advised that they would as any allegations would be considered at the

assessment stage by the Head of Legal and Democratic Services and an Independent Person. They would determine whether a formal investigation would be required or if no further action was necessary.

RESOLVED

That the update report on standards issues be noted.

13 CURRENT POSITION OF THE WORK PROGRAMME

The Chairman presented the report of the current position of the Committee's work programme as provided at each meeting of the Committee, and the work programme as it currently stood as set out at Appendix A to the report for Members' information.

The Chairman commented that no items had slipped and asked if Members wished to add anything to the work programme.

The Finance Manager (Compliance) advised that a paper had been brought to the Committee the previous year relating to the external audit appointment. A formal decision regarding the future External Audit provider for the Council would be announced in January 2018, at which point an update would be provided to the Committee.

The Chairman noted that the Audit and Governance Committee was very small and had come close to not being quorate on this occasion. He suggested that increasing the size of the Committee would reduce the risk of being non quorate in the future. The Democratic Services Manager advised that this would require a change in the Constitution. Therefore a report would need to be brought to a future Audit & Governance Committee for consideration and any recommendations made would be taken to Full Council for consideration. The Chairman concluded that this was to be added as an item to the Work Programme.

RESOLVED

That the Audit & Governance Committee's Work Programme for 2017/18 be noted and that an item on the size of the Committee would be added to the next appropriate meeting.

The meeting was concluded at 7.30 pm.

Chairman