

MINUTES OF A MEETING OF THE
 PERFORMANCE, AUDIT AND GOVERNANCE
 SCRUTINY COMMITTEE HELD IN THE
 COUNCIL CHAMBER, WALLFIELDS,
 HERTFORD ON TUESDAY 24 JULY 2018, AT
 7.00 PM

PRESENT: Councillor M Pope (Chairman)
 Councillors A Alder, P Ballam, P Boylan,
 R Brunton, S Cousins, K Crofton, T Page,
 L Radford, T Stowe and J Wyllie

ALSO PRESENT:

Councillors M Allen and G Cutting

OFFICERS IN ATTENDANCE:

| | |
|--------------------|--|
| Lorraine Blackburn | - Democratic Services Officer |
| Isabel Brittain | - Head of Strategic Finance and Property |
| Graham Mully | - Insurance and Business Risk Advisor |

ALSO IN ATTENDANCE:

| | |
|---------------|---------------------------------|
| Debbie Hanson | - Ernst Young LLP |
| Simon Martin | - Shared Internal Audit Service |

112 CHAIRMAN'S ANNOUNCEMENTS

The Chairman reminded Members that in the interests of transparency of decision making, all recommendations, other than presentations or items for noting needed to be formally moved and seconded.

The Chairman commented that in recognition of GDPR, all pink papers attached to the agenda should be disposed of as confidential paper. He said that the Democratic Services Officer would be happy to dispose of these papers at the conclusion of the meeting.

The Chairman suggested that, with the consent of Members, the External Auditor's report and the Annual Statement of Accounts be considered before the General Fund Revenue and capital outturn in order to make better use of the External Auditor's time. This was supported.

113 APOLOGIES

Apologies for absence were received from Councillors D Oldridge, P Ruffles, S Reed and S Stainsby. It was noted that Councillor R Brunton was substituting for Councillor P Ruffles.

114 MINUTES

It was moved by Councillor A Alder and seconded by Councillor S Cousins that the Minutes of the meeting held on 25 May 2018 be confirmed as a correct record and signed by the Chairman. After being put to the meeting and a vote taken, the motion was declared as CARRIED.

RESOLVED – that the Minutes of the meeting held on 25 May 2018 be confirmed as a correct record and signed by the Chairman.

115 AUDITOR'S RESULTS REPORT: EY (ERNST YOUNG)

The External Auditor (EY) submitted the Audit Results report for 2017/18. She referred to the Executive Summary of their preliminary audit conclusions. The External Auditor stated that some outstanding matters needed to be resolved which were detailed in Section 3 of their report. These related to:

- Journals testing.
- Payroll differences / testing.
- Final Audit Manager and Associate Partner review of the audit work completed.
- Review of the final version of the financial statements.
- Completion of subsequent events review.
- Receipt of the signed management representation letter.

Subject to the above issues being resolved, EY expected to issue an unqualified audit opinion on the financial statements before the statutory deadline of 31 July 2018.

The External Auditor provided updates in relation to the Executive Summary including:

- Understatements in relation to debtor and creditor figures.
- Pension discounts and the impact on the pension

reserves.

- Virgin Media and NNDR Appeals provision.

In response to a query from the Committee Chairman, the Head of Strategic Finance and Property explained that there were a number of ongoing (NNDR) appeals and further information would be provided to EY when the Officer returned from leave. The Head explained that the tighter timetable in which to produce the draft accounts had impacted on the pensions estimate provided by the County Council's actuaries. She provided an update in relation to understatements in relation to debtor and creditor figures.

The Committee Chairman sought and was provided with clarification on a number of queries:

- whether independent partners reviewed the accounts;
- what had impacted on the Auditor's final fee for 2017/18;
- the Housing Subsidy deadline claim and last year's administrative assistance by the Council;
- how well the audit had progressed; and
- the early deadlines and how this impacted on both EY and Council Officers.

The Chairman, on behalf of Members thanked EY for their report.

It was moved by Councillor L Radford and seconded by Councillor J Wyllie that the Auditor's Results Report be received. After being put to the meeting and a vote taken the recommendation to receive the report was CARRIED

RESOLVED - that the External Auditor's report be received.

116 ANNUAL STATEMENT OF ACCOUNTS

The Executive Member for Finance and Support Services submitted a report setting out the background to the 2017/18 Statement of Accounts. The report also provided details of the overall financial position in the Balance Sheet and revenue activities for the General Fund and Collection Fund.

The Head of Strategic Finance and Property provided a summary of the report. She commented that the accounts would not be signed off until all the work had been completed and asked that the task of signing off the accounts be delegated to the Head of Strategic Finance and Property. This was supported.

It was moved by Councillor J Wyllie and seconded by Councillor T Stowe that the recommendations, including delegated authority to sign off the accounts to the Head of Strategic Finance and Property, as detailed be supported. After being put to the meeting and a vote taken, the recommendations were declared CARRIED.

RESOLVED - that (A) the Council's Statement of Accounts for the financial year 2017/18 be approved

and the Chairman of Performance, Audit and Governance Scrutiny Committee be authorised to sign thereof at the conclusion of the meeting;

(B) the Letter of Representation be approved for signing by the Chairman of Performance, Audit and Governance Scrutiny Committee and the Head of Strategic Finance and Property; and

(C) the Head of Strategic Finance and Property be given delegated authority to sign off the accounts.

117 GENERAL FUND REVENUE AND CAPITAL OUTTURN 2017/18 AND MEDIUM TERM FINANCIAL PLAN 2019/20: UPDATE

The Executive Member for Finance and Support Services submitted a report on the General Fund Revenue Outturn for 2017/18 and the Medium Term Financial Plan 2019/20 update. The report also provided a summary of financing arrangements for the 2017/18 Capital Outturn and the updated 2018/19 capital budget and approved slippage for 2017/18. The Head of Strategic Finance and Property provided a summary of the report and was happy to report that the budget was underspent by £7k as a result of fluctuations between services.

The report was debated at length when Members sought and were provided with clarification on a number of issues:

- the depressed rental income on Charrington's House, and the fact that Officers had secured more tenants which would impact positively on the Balance Sheet;
- PCN income and a request that the Head of

Operations write to Members regarding the number of successful appeals;

- an overspend in the Democratic Services salaries budget;
- the underspend achieved of £223k within Housing and Health and within a year and the possibility of a service review;
- assurances that the first quarter health check in September would provide greater levels of details in terms of the Council's capital and revenue position;
- the sum of £633k towards demolition costs for the Causeway building and how these would be funded. The Head of Strategic Finance and Property advised that this was a reserve fund held for this type of expenditure.
- the overspend of £33k in Planning given recruitment difficulties and the need to keep this under review;
- Legal and General's ownership of Jackson Square in Bishop's Stortford and the Council's management role;
- the capital budget overspend of £600k in respect of the Causeway building;
- the slippage figure in relation to the Fire Suppression unit at Buntingford Depot which remained unchanged and was not split between the two authorities;

- the overspend of £297k against the Business and Technology Service budget, whether this was a one off because of under investment in previous years and was this related to cyber security? The Head of Strategic Finance and Property undertook to provide a breakdown to Members;
- an underspend in terms of £51k in relation to interest and investment income; and
- the Council's receipt of £325k funding.

The Committee Chairman sought and was provided with assurance that the Council's level of reserves was now at an appropriate level and there was resilience in their usage.

Councillor J Wyllie reminded Members that it was the Council who refunded their parking fees when shopping at Sainsburys. Members supported the suggestion that the public be made aware that it was not Sainsburys who refunded shoppers their parking fees but East Herts Council made possible by the residents of East Hertfordshire.

It was moved by Councillor J Wyllie and seconded by Councillor A Alder that the recommendations, as detailed be supported. After being put to the meeting and a vote taken, the recommendations were declared CARRIED.

RESOLVED – that the Executive be advised that (A) the General Fund revenue outturn of £7k underspend be transferred to the General reserve;

and

(B) the capital budgets of £1.496M be re-profiled from 2017/18 capital programme to 2018/19 programme to fund ongoing capital schemes.

118 SHARED INTERNAL AUDIT SERVICE (SIAS) - ASSURANCE STATEMENT AND ANNUAL REPORT 2017 – 18

The Shared Internal Audit Service (SIAS) submitted a report summarising their opinion on the adequacy and effectiveness of the Council's control environment, the outcomes of self-assessments required against accounting standards, and SIAS's performance in delivering the Council's audit plan. The report presented the 2018/19 Audit Charter. The report also sought management assurance that the scope and resources for the internal audit were not subjected to inappropriate limitations in 2017/18. The SIAS Officer provided a summary of the report.

The Committee Chairman sought and was provided with assurances regarding the Council's non-financial systems. The Head of Strategic Finance and Property explained how the service worked with SIAS to review riskier issues to make sure proper controls were in place.

The Committee Chairman sought and was provided with clarification on:

- the six audit projects which were classified as "not assessed"; and
- the limited assurances provided in relation to cyber

security.

The Committee Chairman suggested that Members might wish to receive more information in relation to wider IT issues and particularly in relation to cyber security. This was supported.

In response to a query from Councillor J Wyllie regarding the overall effectiveness of SIAS and audit delivery, the Head of Strategic Finance and Property assured Members of the good working relationship with SIAS.

It was moved by Councillor L Radford and seconded by Councillor A Alder that the recommendations, as detailed be supported. After being put to the meeting and a vote taken, the recommendations were declared CARRIED.

RESOLVED – that (A) the Annual Assurance Statement and Internal Audit Annual report be noted;

(B) the results of the self-assessment required by the Public Sector Internal Audit Standards (PSIAS) and the Quality Assurance Improvement Programme (QAIP) be noted;

(C) the Audit Charter for 2018/19 be approved; and

(D) confirmed that the scope and resources for the internal audit had not been subject to inappropriate limitations in 2017/18.

119 SHARED INTERNAL AUDIT SERVICES (SIAS) - PROGRESS
REPORT ON AUDIT PLAN 2018 – 19

The Shared Internal Audit Service submitted a report detailing the internal audit progress in delivering the audit plan as at 6 July 2018, proposed amendments to the approved Internal Audit Plan, and the status of previously agreed internal audit recommendations. Additionally, the report provided an update on performance management information up to 6 July 2018 and detailed revised assurance definitions / priority levels. The SIAS Officer provided a summary of the report.

Members referred to the issue of cyber security and the limited assurance level which had been given. The status of high priority recommendations were discussed including IT Disaster Recovery (Post Incident). The Committee Chairman suggested that Members be provided with further information on cyber security and within the context of disaster recovery and that this be added to the Work Programme for 2018/19. This was supported.

It was moved by Councillor P Ballam and seconded by Councillor J Wyllie that the recommendations, including the inclusion of cyber security and disaster recovery in the work programme, as detailed be supported. After being put to the meeting and a vote taken, the recommendations were declared CARRIED.

RESOLVED - that (A) the Internal Audit Progress report be noted.

(B) the amendments to the Audit Plan as at 6 July 2018 be approved;

(C) the status of high priority recommendations be noted;

(D) the revised assurance definitions / priority levels be noted; and

(E) the Work Programme be amended by the inclusion of cyber security and disaster recovery.

120 ANNUAL GOVERNANCE STATEMENT 2017/18 : UPDATE

The Leader of the Council submitted a report presenting the 2017/18 Annual Governance Statement and the 2018/19 Annual Governance Statement Action Plan. The Head of Strategic Finance and Property provided a summary of the report.

Councillor T Page referred to IT Disaster Recovery and the suggestion that both Councils should perform a business impact assessment on the loss of IT and queried the suggestions that Councils should define their respective risk appetites on a service basis. The Insurance and Business Risk Advisor explained what actions were taken in relation to the business continuity plan and which services were determined as priorities. He explained that he was currently reviewing business continuity templates which would be considered by Leadership Team.

RESOLVED – that (A) the Annual Governance Statement 2017/18 be noted; and

(B) the Annual Governance Statement Action Plan

2018/19 be noted.

121 RISK MANAGEMENT ANNUAL REPORT

The Head of Strategic Finance and Property submitted a report on the content of the Strategic Risk Register for 2018/19. The Head of Strategic Finance and Property provided a summary of the report.

In response to a query from the Committee Chairman, the Insurance and Business Risk Advisor provided an explanation of the numbers used in the matrix, 1 being remote and 4 being likely to occur. He explained that some risks could be managed down with controls but others could not.

It was moved by Councillor R Brunton and seconded by Councillor K Crofton that the recommendations, as detailed be supported. After being put to the meeting and a vote taken, the recommendations were declared CARRIED.

RESOLVED – that the Executive advised that Members had reviewed and received the Strategic Risk Register.

122 WORK PROGRAMME 2018/19

The Chairman of Performance, Audit and Governance Scrutiny Committee submitted a report setting out the committee's future work programme.

The Committee Chairman commented that in the past, Members had considered a request to have a presentation

by Housing Associations which would cover things such as repairs and general issues of concern. Members were reminded that presentations had been reported to the former Community Scrutiny Committee and that future reports would be within the remit of Overview and Scrutiny Committee. Councillor M Allen undertook to submit a request for this via a Scrutiny Proposal Form.

The Committee Chairman explained that he had asked the Head of Democratic and Legal Services for an update regarding the employment of a Scrutiny Officer who had advised that the matter was in hand and the content of the role was being reviewed. Councillor J Wyllie stated that it was critical that Members had a Scrutiny Officer in post to support them in the role of scrutiny.

Arising from consideration of reports elsewhere on the agenda, Members were reminded that they had already supported the inclusion onto the work programme, of a report on disaster recovery following a cyber-attack and the impact this might have in relation to the business impact /continuity plan. This was supported.

Members referred to Essential Reference Paper "B" in terms of the items to be scoped / added, specifically in relation to Section 106 Agreements (review of the management of Section 106 payments). Councillor P Ballam reminded Members that when this had been discussed at an earlier meeting, it was also about whether agreements were appropriate. Councillor T Page suggested that a financial statement detailing the current position be provided for scrutiny and which provided expiration details. This was supported.

It was moved by Councillor T Page and seconded by Councillor S Cousins that the draft work programme, be amended by the inclusion of :

- a report on disaster recovering following a cyber-attack and in relation to the business impact continuity / assessment; and
- a report on Section 106 agreements including a financial statement detailing the summary position be reported to the November meeting.

After being put to the meeting and a vote taken, the recommendations, including the amendments, were declared CARRIED.

RESOLVED - that the draft work programme as amended, for Performance, Audit and Governance Scrutiny Committee, as now detailed, be approved.

123 EXCLUSION OF THE PRESS AND PUBLIC

Councillor M Pope moved, and Councillor J Wyllie seconded, a motion that under Section 100 (A)(4) of the Local Government Act 1972, the press and public be excluded from the meeting during the discussion of Minute 124 – Insurance Options for 2019 on the grounds that it involved the likely disclosure of exempt information as defined in paragraph 3 of part 1 of Schedule 12A of the said Act. After being put to the meeting, and a vote taken, the motion was declared CARRIED.

RESOLVED - that under Section 100 (A)(4) of the Local Government Act 1972 the press and public be

excluded from the meeting during the discussion of (in part) Minute 124 (Insurance Options for 2019) on the grounds that it involved the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the said Act.

124 INSURANCE OPTIONS FOR 2019

The Executive Member for Finance and Support Services submitted a report seeking views on the Council's future insurance arrangements as the Council's long term agreement ended in 2019.

The Head of Strategic Finance and Property provided a summary of the report and drew Members' attention to the Essential Reference Paper "B" containing exempt information which set out three options available to the Council and the risks and benefits of each option. The Insurance and Business Risk Advisor provided an update in relation to the Council's relationship with the Local Government Association Mutual which was in its early development stages.

Councillor G Cutting summarised his involvement in the process explaining that he had attended meetings at the LGA which was moving towards an operational board and engaging professional consultants. He explained that at the present time, there were a number of unknowns and issues to resolve which could impact on the premiums each Council would have to pay.

Councillor Cutting explained that there was a great deal of encouragement to commit to becoming a founder Member but that for the moment, the Council should take a

prudent approach over the next couple of years, and until the unknowns had been resolved. He suggested that the Council could present its “book” for soft market testing on its portfolio but that this could impact negatively on the LGA Mutual and any competitive rate they might offer in the future.

Councillor J Wyllie stated that he was happy to support the extension of the contract for a maximum of two years and while Members sought further information regarding the progress of the LGA Mutual. Councillor L Radford supported this suggestion.

The Insurance and Business Risk Advisor summarised some of the Council’s key insurance requirements which was split between eight insurance companies. Councillor P Boylan suggested that the Council could increase the excesses to lower the premium rates. The Insurance and Business Risk Advisor agreed that this was a possibility and that the Council was doing more self-funding and that an actuarial review will be commissioned when appropriate to help determine the optimum balance between insured and retained risk. He stated that he had had a number of meetings with the Head of Strategic Finance and Property on the options in going forward.

Councillor G Cutting explained that the Council could be declaring its intention to establish itself as a founding Member by submitting its insurance “book”. The Head of Strategic Finance and Property suggested that the Council should continue to attend meetings and correspond with the Mutual for the time being. Councillor S Cousins suggested that the Council should stick to the status quo.

The Committee Chairman commented that given Members' views and the on the advice submitted, the Council should take a prudent approach regarding its future insurance arrangements.

It was moved by Councillor S Cousins and seconded by Councillor P Boylan that :

- the Council's insurance contracts be extended for a maximum of two years, and
- Officers submit a review in one year and receive an update on the Council's position as an uncommitted founding Member and that the Executive be advised that the recommendations as detailed be supported.

After being put to the meeting and a vote taken, the recommendations now detailed, were declared CARRIED.

RESOLVED - that the Executive (A) be advised that:

(A) the Council's insurance contracts be extended for a maximum of up to two years; and

(B) Officers submit a review in one year and an update on the Council's position as an uncommitted founding Member of the LGA Mutual.

The meeting closed at 9.22 pm

| |
|----------------|
| Chairman |
| Date |