

EAST HERTS COUNCIL

EXECUTIVE – 11 SEPTEMBER, 2018

REPORT BY PERFORMANCE AUDIT AND GOVERNANCE SCRUTINY  
COMMITTEE CHAIRMAN

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PERFORMANCE AUDIT AND GOVERNANCE SCRUTINY COMMITTEE –  
UPDATE

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WARD(S) AFFECTED: All

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**Purpose/Summary of Report**

- This report details the comments and recommendations made following Performance Audit and Governance Scrutiny Committee on 24 July 2018.

<b><u>RECOMMENDATION:</u></b>	
<b>(A)</b>	<b>That the Executive note the contents of the report.</b>

**1.0 Background**

1.1 Issues arising from Performance, Audit and Governance Scrutiny Committee on 22 May 2018 were reported to the Executive on 17 July 2018. Performance Audit and Governance Scrutiny Committee met on 24 July 2018 to consider the following items:

- **General Fund Revenue and Capital Outturn 2017/18 and Medium Term Financial Plan**
- **Annual Statement of Accounts**
- **External Auditors' Report**

- **SIAS – Assurance Statement**
- **SIAS – Progress report on Audit Plan**
- **Annual Governance Statement 2017/18**
- **Risk Management Annual Report**
- **Work Programme**
- **Insurance Options for 2019**

## 2.0 **General Fund Revenue and Capital Outturn 2017/18 and Medium Term Financial Plan**

2.1 The Committee considered a report detailing the general fund revenue outturn for 2017/18 and significant variances. The report also provided a summary of the financing arrangements for the 2017/18 capital outturn and the Head of Strategic Finance and Property updated 2018/19 capital budget and approved slippage for 2017/18. It was noted that the budget was underspent by £7k.

2.2 The Committee discussed the report at length. Members sought and were provided with clarification from Officers on a number of key elements contained in the report, including:

- The depressed rental income on Charrington's House but that more tenants had been secured.
- A request about how many of the PCN appeals were successful;
- The overspend in Legal and Democratic Services salaries budget;
- The underspend of £223k within Housing and Health and whether a review of the service should be carried out;
- Assurances that the first quarter health check in September would provide greater levels of detail in terms of the Council's capital and revenue position;

- The sum of £633k towards demolition costs for The Causeway building and whether these works would be funded from the commercial property fund;
- The additional responsibilities undertaken by the planning department had caused an overspend of £33k given the 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 had remained unchanged;
- an overspend of £297k against the Business and Technology Service budget, whether this was a one off because of under-investment in previous years and whether this was related to cyber security?
- the an underspend in terms of £51k in relation to interest and investment income;
- the receipt of £325k funding;
- Assurances on level of the Council's level of reserves and resilience in their usage;
- the need to let the public know that it was the Council and not Sainsburys who refunded their parking while shopping in Bishop's Stortford.

2.3 The Committee supported the recommendations as detailed.

2.4 The Committee recommended that the General Fund Revenue

Outturn of £7k underspend be transferred to the General Reserve and the Capital Budgets of £1.496M be re-profiled from 2017/18 capital programme to the 2018/19 programme to fund ongoing capital schemes.

### **3.0 Annual Statement of Accounts**

3.1 The Committee considered a report on 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 requested that the task of signing off the accounts be delegated to her.

3.2 The Committee supported the recommendations as detailed.

3.3 The Committee recommended that

- the Council's Statement of Accounts for the financial year 2017/18 be approved and the Chairman of Performance, Audit and Governance be authorised to sign thereof at the conclusion of the meeting;
- the Letter of Representation be approved for signature by the Chairman of Performance Audit and Governance Scrutiny committee and the Head of Strategic Finance and Property; and
- The Head of Strategic Finance and Property be given delegated authority to sign off the accounts.

### **4.0 External Auditors' Report**

4.1 The Committee considered the External Auditor's (EY) report on the Audit Results for 2017/18 including a summary of their preliminary audit conclusions. Subject to a number of outstanding matters detailed within section 3 of their report, EY expected to issue an unqualified audit opinion on the

financial statements before the statutory deadline of 31 July 2018.

4.2 The Committee received updates on the Executive Summary and in relation 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 the subsequent events review; and
- The content of the signed management representation letter
- Understatements in relation to the debtor and creditor figures;
- pension discounts and the impact on the pension reserves
- Virgin Media and NDR Appeals provision

4.3 The Committee noted the impact on of the tighter timetable in which to produce the draft accounts.

4.4 Members sought and were provided with clarification on a number of issues:

- 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 years' administrative assistance by the Council;
- How well the audit had progressed.

4.5 The Committee recommended that the External Auditor's report be received.

## **5.0 SIAS Assurance Statement**

- 5.1 The Committee considered a report by the Shared Internal Audit Services (SIAS) 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 also detailed the 2018/19 Audit Charter. Lastly, the report sought management assurance that the scope and resources for the internal audit had not been subject to inappropriate limitations in 2017/18.
- 5.2 Members sought and were provided with assurances regarding the Council's non-financial systems and how Officers worked with SIAS to review riskier issues to make sure property controls were in place.
- 5.3 The Committee sought and was provided with clarification on:
- the six audit projects which had been classified as "not assessed";
  - the limited assurances had been provided in relation to cyber security. The Committee asked for more information in relation to wider IT issues and particularly in relation to cyber security and asked that this be incorporated into the work programme.
- 5.4 The Committee supported the recommendations as detailed.
- 5.5 The Committee recommended:
- that the Annual Assurance Statement and Internal Audit Annual report be noted;
  - the results of the self-assessment required by the Public Sector Internal Audit Standards (PSIAS) and the Quality Assurance Improvement Programme (QAIP) be noted;
  - the Audit Charter for 2018/19 be approved; and
  - confirmed that the scope and resources for the internal audit had not been subject to inappropriate limitations

in 2017/18.

## 6.0 **SIAS – Progress report on Audit Plan**

6.1 The Committee considered a report 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 recommendation. The report provided an update on performance management information up to 6 July 2018 and detailed revised assurance definitions / priority levels.

6.2 The Committee debated the issue of cyber security and the limited assurance level which had been given. Members also considered the status of high priority recommendations including the IT Disaster Recovery (Post Incident). Members supported the suggestion that a report on cyber security within the context of disaster recovery be added to the PAG Work Programme.

6.3 The Committee supported the recommendations as amended and as detailed.

6.4 The Committee recommended:

- that the Internal Audit Progress report be noted;
- the amendments to the Audit Plan (as at 6 July 2018) be approved;
- the status of high priority recommendations be noted;
- the revised assurance definitions / priority levels be noted; and
- the work programme for PAG be amended by the inclusion of a report on cyber security and disaster recovery

## 7.0 **Annual Governance Statement**

7.1 The Committee considered a report on the current position of the 2017/18 Annual Governance Statement and the 2018/19

## Annual Governance Statement Action Plan.

- 7.2 The Committee suggested that both East Herts Council and Stevenage Borough Council should perform a business impact assessment on the loss of IT and the suggestion that both Councils should define their respective risk appetites on a service basis. The Officer explained what actions were taken in relation to the business continuity plan and which services were determined as priorities.
- 7.3 The Committee supported the recommendation as detailed.
- 7.4 The Committee recommended that the Annual Governance Statement 2017/18 and the annual Governance Statement Action Plan 2018/19 be noted.

## **8.0 Risk Management Annual Report**

- 8.1 The committee considered a report on the proposed content of the Strategic Risk Register. Members were reminded that during 2017/18 Members agreed that an annual risk report would be submitted with updates provided on an exception basis with the next exception report due to PAG on 4 September 2018.
- 8.2 The Committee discussed the matrix numbers allocated to risk and the bases for this.
- 8.3 The Committee supported the recommendations as detailed.
- 8.4 The Committee recommended that the Risk Management Annual Report be received.

## **9.0 Work Programme 2018/19**

- 9.1 The Committee considered a report on the work programme for 2018/19.



- 9.2 The Committee discussed previous presentations which had been made by Housing Associations to the former Community Scrutiny Committee which had reported on general issues such as repairs, maintenance. Members noted that any future report would be within the remit of Overview and Scrutiny committee. The Chairman of that Committee, undertook to submit a request for this via a Scrutiny Proposal Form.
- 9.3 The Committee noted that the Chairman had asked the Head of Legal and Democratic Services for an update on the appointment of a Scrutiny Officer and was advised that the matter was in hand and the content of the role was being reviewed. Members commented that it was critical that a Scrutiny Officer be appointed to support them in the role of scrutiny.
- 9.4 The Committee was reminded that they had already requested the inclusion of a report on disaster recovery following a cyber- attack and asked that this be considered in the context of the business impact / continuity plan.
- 9.5 The Committee referred to ERP B in relation to Section 106 Agreements (Review of the management of Section 106 payments). Members requested that a financial statement detailing the current position be submitted to scrutiny and which provided expiration details.
- 9.6 The Committee supported the recommendations as amended.
- 9.7 The Committee recommended that the work programme as amended be approved by the inclusion of:
- A report on disaster recovery following a cyber-attack and in relation to the business impact continuity / assessment;
  - A report be submitted on Section 106 agreements including a financial statement detailing the summary position be reported to PAG in November 2018.

## **10.0 Insurance Options 2019**

- 10.1 The Committee considered an (in part) exempt report on the future insurance arrangements as the Council's long term agreement ends in March 2019. The Committee received an update on the Council's relationship with the Local Government Association Mutual which was in its early development stages.
- 10.2 The Committee considered the Tender Options as detailed in the exempt part of the report and the advantages and disadvantages of each option were considered.
- 10.3 A Member summarised his involvement in the process and explained that he had attended meetings at the LGA with Officers and that the Mutual was moving towards an operational board and engaging professional consultants. He explained that at the present time there were still a number of unknowns and issues which could impact on the premiums each Council would have to pay. The Member 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 until issues had been resolved. He suggested to Members that the Council could present its "book" for soft market testing on its portfolio, but that this could impact negatively on the relationship with the LGA Mutual and any competitive rates they might offer in the future.
- 10.4 The Committee noted some of the Council's key insurance requirements which were split between eight insurance companies. Members debated:
- The suggestion to extend the current contract for a maximum of two years while seeking further information on the progress of the LGA Mutual;

- The importance of service delivery;
- The Council's insurance requirements (currently split between eight companies);
- The possibility of self-funding and increasing excesses to reduce premiums;
- That by submitting its "book" to the Mutual the Council could be declaring its intention to establish itself as a founding Member;
- The possibility of continuing to attend meetings and corresponding with the Mutual for the interim.

10.5 The Committee supported a prudent approach regarding its future insurance arrangement.

10.6 The Committee recommended that the Council's insurance contracts be extended for a maximum of two years and that officers submit a review in one year when Members will receive an update on the Council's position as an (uncommitted) founding Member.

### Background Papers

None

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