

WEST LINDSEY DISTRICT COUNCIL

MINUTES of the Meeting of the Governance and Audit Committee held in the Council Chamber - The Guildhall on 10 March 2020 commencing at 2.00 pm.

Present: Councillor John McNeill (Chairman)
Councillor Mrs Jackie Brockway (Vice-Chairman)

Councillor Mrs Tracey Coulson
Councillor Christopher Darcel
Councillor David Dobbie
Councillor Mrs Caralyne Grimble
Councillor Mrs Angela White
Alison Adams
Andrew Morriss
Peter Walton

In Attendance:
Alan Robinson Monitoring Officer
Emma Bee Audit Manager
Caroline Capon Corporate Finance Team Leader
Zlati Kalchev Assurance Lincolnshire
James O'Shaughnessy Corporate Policy Manager & Deputy Monitoring Officer
Matthew Waller Internal Audit
James Welbourn Democratic and Civic Officer

41 PUBLIC PARTICIPATION PERIOD

There was no public participation.

42 MINUTES OF PREVIOUS MEETING

The minutes of the meeting held on 14 January 2020 were approved as a correct record.

43 MEMBERS DECLARATIONS OF INTEREST

There were no declarations of interest.

44 MATTERS ARISING SCHEDULE

The matters arising schedule was noted.

45 INTERNAL AUDIT DRAFT ANNUAL PLAN REPORT 2020/21

Members considered a draft annual internal audit plan based on assurance mapping and risk assessments across the Authority's critical services.

Assurance Lincolnshire provided an introduction, outlining the following points:

- The plan was discussed with internal audit management, and managers at West Lindsey District Council (WLDC). The plan outlines which aspects of the Council's business and processes of the Authority would be audited over the course of the following civic year;
- In the opinion of Assurance Lincolnshire, there was a good mix of internal audits over key projects;
- The Lea Fields Crematorium was a big new project undertaken by WLDC, and it would be useful to have this independently audited;
- Other subjects would arise from 'assurance mapping'; the draft plan was flexible, and could be changed mid-year if required.

Members then asked questions of officers, and also provided comment. Further information was provided:

- The 'red, amber and green (RAG)' risk ratings were discussed with council management, and had three levels of assurance. These levels were:
 - How managers feel about the service;
 - Corporate information;
 - Audit opinion.

There was also an audit scoring mechanism, based on how material it was to the Authority, and when the subject matter was last audited. All of this information taken together resulted in a 'RAG' rating;

- There were a lot of subject areas across the Authority and it would be impossible to audit them all over the course of a year. In conjunction with Council management, all subject areas were reviewed, as there could be other routes to assurance.

The first point of assurance was always internal management;

- The equality and diversity audit was last carried out in 2009, but would be discussed at the next Prosperous Communities meeting in March;
- Another level of assurance comes from the Head of Internal Audit. Also, the result of the recently completed peer review gives an independent high level test;
- Internal Audit conformed with professional standards, tested internally and externally every five years. The last mid cycle review for Internal Audit was around two and a half years ago, and was well commended by the Chartered Institute of Public Finance and Accountancy (CIPFA).

WLDC was also subject to the External Audit regime, which provided a further level of assurance;

- There would be sufficient time to complete all of the planned audits, including the crematorium audit. If Members required assurance above and beyond the work that Internal Audit carried out then it would be important to find other means of gaining this assurance, ideally from internal management;
- Internal Audit look at both the least and most expensive projects in the organisation;
- When the larger projects go awry it would be a much bigger impact for the Authority;
- Educational attainment was one of the key deliverables in the Corporate Plan; in turn, failure to deliver the Corporate Plan was a strategic risk. WLDC did not directly influence the education sector, but were involved in mentoring and intervention. This mentoring and intervention was targeted at a range of lifelong skills.

The 'red' or 'high' risk attached to educational attainment was a correlation of two factors; whether that risk would materialise, and its impact should it happen. As a result of it being a 'red', or 'high' risk, controls and activities were scheduled to mitigate the risk;

- Although some of the cyclical audits have not been carried out since 2010 by Internal Audit, they were still looked at by council management. For example, Business Continuity was refreshed in light of the evolving risk of Covid-19;
- One of the strategic risks was 'the inability to maintain critical services and deal with emergency events' – this would be seen by Governance and Audit committee later in the year. Emergency planning had been reviewed ahead of 'Brexit'; more recently it had also been tested through the flooding events in the region.

RESOLVED to note and agree the contents of the report and be assured that the plan provides robust coverage of the Council's critical areas and services.

46 ACCOUNTS CLOSEDOWN 2019/20 - ACCOUNTING MATTERS

Members considered a report reviewing accounting policies, actuary assumptions and materiality levels that would be used for the preparation of the 2019/20 accounts.

The main points were highlighted:

- There had been no major changes from 2018/19 to the accounting policies;
- There had been several changes to the CIPFA Code of Practice:
 - An explanation of code approach;
 - An update to reflect 2018 International Accounting Standards Board Conceptual Framework Module 2 Section A;
 - Closure of Carbon Reduction Commitment Scheme;
 - Apprenticeship Levy – payments received in the Council's digital apprenticeship service account were considered to be a government grant for accounting purposes;
 - Prepayment features with negative compensation;

- Lender option borrower option clauses;
- Group accounts scope clarification.

WLDC were fully compliant with all of these changes;

- There was a significant accounting change in 2020/2021 relating to leases, which must be accounted for on the Council balance sheet;
- The tri-ennial valuation would be concluded on 31 March 2020; the previous report was from 2016, so it was anticipated there would be a sizeable change in the asset and liability measurement this year for the Statement of Accounts;
- There were no known proposals that the Authority were taking forward which would impact on the actuary assumptions;
- An adjustment had been requested for the McCloud judgement; in December 2018, the Court of Appeal held the transitional protection offered to members of public sector pension schemes who were closer to retirement age gave rise to unlawful discrimination, as younger members were not eligible to receive it. This is known as the 'McCloud Judgment'.

The pensions liability would need to be increased; two reports had been requested, with one being based on estimates to the end of April 2020 to allow the Finance team to shut the accounts within the statutory deadline, with the other report produced at the end of May 2020;

- External Audit had set the materiality level (the level at which a discrepancy or omission had occurred for example) at £850,000; WLDC set their own materiality level at a different level. The triviality level was set at £26,000;
- The 2019/2020 Closedown Risk Register contained two medium risks and one high risk (Brexit);
- A restatement of the accounts from 2018/19 had been required due to the omission of a correct valuation for the Guildhall, which led to an overstatement of the total expenditure in the Comprehensive Income and Expenditure Statement. As a further consequence the surplus on the Provision of Services was understated.

A full review of all of the Authority's land and buildings had been carried out, and the valuers were happy with the restatement.

Members then asked questions of officers present and also provided comment. Further information was provided:

- Brexit and now Covid-19 were having an effect on the economy; the situation with Brexit would take several years, whereas it was hoped that Covid-19 would be short term;
- Elements of accounting variations were carried out on a 'direct replacement cost'.

The cost of building materials had an effect on valuations. Property values could drop, which would impact on investments and pensions held by the Authority;

- In relation to the error made by the valuers, officers were going through the process of contract management to try and retrieve costs incurred by the Council;
- The McCloud judgement had deemed that it was highly likely there would be an impact on public sector pensions; because of that, the liabilities faced by the Authority's pension fund would increase. The valuers were being asked to take this into account so that there would not be an understatement, or misstatement on the accounts;
- The componentisation of assets enabled valuers to break down the main elements of buildings, land, heating, internal and external areas. It allowed for a more accurate depreciation of the cost of buildings.

Componentisation valuations were set at £500,000, which was quite low for a local authority. There were only 9 assets which exceeded that value. Given the size of the authority's asset register, £500,000 was deemed a reasonable level to set at this point. If this level was set lower, then there would be a This was all detailed in the accounting policy;

- The majority of Council assets were finance leased and on the accounting balance sheet; therefore the figure involved in the International Financial Reporting Standards (IFRS) adjustment would be very low;
- There were professional ethics to consider when looking at financial decisions that may be just below the materiality level. There was a conscious decision from staff to include as much as possible that fell below this materiality level.

The materiality level was really important when considering what may happen in the future;

- The Lea Fields Crematorium was not included in this closedown, but would be included from 31 March;
- Investment decisions made by the Authority had been audited by officers from Internal Audit;
- In the production of the Statement of Accounts, officers created 368 working papers, these in turn were audited by External Audit partners.

RESOLVED to:

- (1) Approve the proposed Accounting Policies (as included at Appendix 1);
- (2) Note the pension assumptions (as included at Appendix 2);
- (3) Note the risk assessment (as included at Appendix 3);

- (4) Approve the proposed materiality levels:
- Disclosure of material items of income and expenditure - £750,000;
 - Manual accruals – limit of £2,000;
 - Disclosures - £750,000;
 - 5% of income for continuing operations;
 - Related party transactions - £10,000;
 - Stocks – anything less than £10,000 is charged to revenue in year;
 - Fixed assets (Property, Plant and Equipment) – major components - £500,000. Only assets with a value greater than £500,000 will be subject to the componentisation rules as per policy
 - The Council has a capital de-minimis level of £10,000 (i.e. at sums below this value are treated as revenue) and it is proposed that this sum remain unchanged.
- (5) Note the key closedown dates at Section 7.6;
- (6) Accept the main accounting changes for 2019/20 and onwards:
- Amendment of Revenue from contracts with service recipients – ii accruals of income and expenditure;
 - Amendment of expected credit loss model – x Financial Instruments;
 - Local Government Pension Scheme – viii Employee Benefits

47 ANNUAL REPORT FROM THE GOVERNANCE & AUDIT COMMITTEE 2019/20

Members considered a report on the work undertaken by the Governance and Audit Committee during 2019/2020.

RESOLVED to:

- (1) Endorse the contents of the report;
- (2) Support the presentation of the Annual Report from the Governance and Audit Committee to Council on 6 April 2020.

48 WORKPLAN

The Democratic and Civic Officer informed Members that the Internal Audit Charter had been withdrawn from the workplan; it had previously been due at the April committee.

The rest of the workplan was noted.

The meeting concluded at 2.59 pm.

Chairman