

SHAREHOLDER COMMITTEE

10 MARCH 2020

INTERNAL AUDIT REPORT - ACTIONS

1.0 Purpose of Report

- 1.1 To update Members on internal audit report actions required relating to the Committee's work and oversight of Arkwood Developments Ltd.

2.0 Background Information

- 2.1 The Council's internal auditors, Assurance Lincolnshire, have undertaken two audits that have highlighted a number of areas for review regarding the way in which the Council manages the relationship that it has with its wholly owned companies. One audit focussed specifically on the Council's development company and one on the Council's companies in general. Both audits were rated with substantial assurance, however the audits identified the following recommendations in three specific areas:

2.1.1 Risk Management

RECOMMENDATIONS - Amend the remit of the shareholder committee to include oversight of the Company's risk management strategy. Amend the formal documentation to include the requirement for the Company to share its Risk Management Strategy and Risk Register with the Council or its representatives.

The remits for the relevant scrutiny groups to be expanded to include obtaining assurance on the risk management and audit processes, which the companies have in place. The remits are also expanded to include the review of potential conflicts of interest.

2.1.2 Ethical and Regulatory Standards

RECOMMENDATIONS - The governance agreements between the Council and its companies are standardised to include the requirement for companies to have specific policies in place regarding ethical and lawful behaviour and these are checked periodically as part of the monitoring process.

The requirements for compliance with the transparency code to be included in all agreements.

2.1.3 Audit Requirements

RECOMMENDATIONS - The documents are revised to include clear statements on audit and scrutiny requirements. Formally require the Company to undertake an external audit and arrange for annual internal audit report.

3.0 Remit of Committee

- 3.1 The current remit of the Shareholder Committee, as detailed in the council's constitution, is set out below:

"Strategic oversight of the Council's Development Company (Arkwood Developments Ltd), including: its performance; management of the relationship between the Council and its

Company; compliance with the Governance Agreement; and “health check” of the Company by the Council as sole shareholder; and specifically to:-

1. Recommend to Council the Company’s Articles of Association for consideration and approval;
2. Recommend to Council the Governance Agreement between the Council and the Company for consideration and approval;
3. Agree the constitution of the Board of Directors and to approve the appointment of directors to the Board and to have the power to remove directors of the Board and approve best practice policies in relation to such appointments;
4. Receive, review and approve the Company’s annual report and the annual business plan;
5. Review the performance of the Company; and 6. Determine, on behalf of the Council, how it should exercise the functions flowing from its ownership of shares, including decisions on payment of dividends from the company’s profit after taxation.”

4.0 Actions Proposed

- 4.1 **Risk Management** - Whilst the internal audit recommends that the remit of the committee should be amended to include oversight of the Company’s risk management strategy, it is considered that this is already included within the overarching wording of ‘strategic oversight’. In addition, there are already provisions within the Governance Agreement between the Council and the Company obliging the company to provide any information to the shareholder or any other of its committees as the Council may reasonably request. The Agreement also specifies that the Council may require the Company to adopt certain policies or procedures in the Company’s operation from time to time.

The audit report also recommends that the committee remit be expanded to include the review of potential conflicts of interest. As can be seen from paragraph 3.1 of the report, it is within the committee’s remit to agree the constitution of the Board of Directors and to approve the appointment of directors to the Board. Given this it is suggested that it is unnecessary to ‘expand’ the remit of the committee as such but that it is more appropriate to put in place formal measures to ensure that the committee to regularly review potential conflicts of interest as part of its work in overseeing the company’s activities.

ACTION PROPOSED - It is proposed that the Company be formally requested to share its Risk strategy and risk registers with the Council (client officer) on a periodic basis, and that confirmation of the adequacy of the assurance arrangements within the Company will be reported to the Shareholder Committee annually. This will be added to the Forward plan of the committee. It is also proposed that the committee review the issue of potential conflicts of interest on a six monthly basis and that this be included in the forward plan for the committee.

- 4.2 **Ethical and Regulatory Standards** –

ACTION PROPOSED – It is proposed that the Governance Agreement be reviewed to ensure that it contains appropriate requirements around ethical and regulatory standards to accord with CIPFA Good Governance Standard and the transparency code.

4.3 **Audit Requirements** – The Governance Agreement contains provisions requiring the Company to provide to the Council a copy of its audited accounts prepared in accordance with the laws applicable and the accounting standards, principles and practices generally accepted in the UK. However, in addition the Agreement also specifies that the Council may require the Company to adopt certain policies or procedures in the Company’s operation from time to time. This allows the Council to specify audit arrangements that it considers to be reasonable in the circumstances.

ACTION PROPOSED – To formally require the Company to undertake an external audit each year and arrange for annual internal audit reports from 2020/21 onwards.

5.0 **RECOMMENDATION(S)**

That the Committee consider and approve the actions as set out in paragraph 4 of the report.

Reason for Recommendation(s)

To comply with internal audit recommendations, regarding good practice for the management of the Council’s company.

Background Papers

Council Internal Audit Reports on Arkwood Developments Ltd and council companies.

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