

# AGENDA

## Audit Committee

**Monday, 19 March 2018 AT 10:00**

**In the Flensburg Room, Civic Centre, Carlisle, CA3 8QG**

### **Apologies for Absence**

To receive apologies for absence and notification of substitutions

### **Declarations of Interest**

Members are invited to declare any disclosable pecuniary interests, other registrable interests and any interests, relating to any item on the agenda at this stage.

### **Public and Press**

To agree that the items of business within Part A of the agenda should be dealt with in public and that the items of business within Part B of the agenda should be dealt with in private.

### **Minutes**

**5 - 16**

To approve and sign the Minutes of the meeting held on 12 January 2018.

[Copy Minutes in Minute Book Volume 44(5) / herewith]

## **PART A**

**To be considered when the Public and Press are present**

**A.1 MINUTES OF BUSINESS AND TRANSFORMATION SCRUTINY PANEL 17 - 44**

The Minutes of the meetings of the Business and Transformation Scrutiny Panel held on 4 January and 15 February 2018; together with the Minutes of the joint meeting with the Health and Wellbeing Scrutiny Panel held on 29 January 2018 are submitted for information.

(Copy Minutes herewith)

**A.2 EXTERNAL AUDIT PLAN 2017/18 45 - 62**

Grant Thornton to present their Audit Plan for the year ending 31 March 2018.

(Copy Audit Plan herewith)

**A.3 EXTERNAL AUDIT PROGRESS REPORT AND SECTOR UPDATE 63 - 78**

Grant Thornton to present a report updating the Committee on progress in delivering their responsibilities as the Council's external auditors.

(Copy Report herewith)

**A.4 AUDIT COMMITTEE'S ANNUAL REPORT 79 - 92**

The Chairman of the Audit Committee to submit a report summarising the work undertaken by the Audit Committee during 2017/18.

(Copy Report RD.51/17 herewith)

**A.5 INTERNAL AUDIT PLAN 2018/19 93 - 112**

The Chief Finance Officer to submit a report providing details of the Internal Audit Plan for 2018/19.

(Copy Report RD.50/17 herewith)

**A.6 INTERNAL AUDIT PROGRESS QUARTER 4 - 2017/18 113 - 132**

The Chief Finance Officer to submit a report providing an overview of the work carried out by Internal Audit in the fourth quarter of 2017/18 (to date), together with information on progress against the agreed audit plan, performance indicators and previous audit recommendations.

(Copy Report RD.49/17 herewith)

The undernoted Final Audit Reports are submitted for consideration:

**Audit of Flexitime and Toil 133 - 146**

**Audit of Arts Centre - Carlisle Old Fire Station 147 - 176**

**Audit of Housing Benefits and Council Tax Reduction 177 - 190**

**Audit follow up of IT General Control 191 - 204**

(Copy Reports herewith)

**A.7 TREASURY MANAGEMENT OCTOBER - DECEMBER 2017 205 - 220**

The Chief Finance Officer to submit a report providing the regular quarterly summary of Treasury Management Transactions including the requirements of the Prudential Code. The matter was considered by the Executive on 12 February 2018.

(Copy Report RD.45/17 and Minute Excerpt herewith)

**A.8 UPDATE ON EFFECTIVENESS REVIEW OF THE AUDIT COMMITTEE**

**221 - 226**

The Chief Finance Officer to submit a report providing an update on the Audit Committee Effectiveness Review and the proposed training programme for the Committee for the forthcoming civic year.

(Copy Report RD.52/17 herewith)

**PART B**

**To be considered when the Public and Press are excluded from the meeting**

- NIL -

**Members of the Audit Committee**

**Conservative** - Higgs, Mrs Mallinson, Shepherd, Bowman S (sub), Christian (sub), Earp (sub)

**Labour** – Mrs Birks, Bowditch (Vice-Chairman), Patrick (Chairman), Sidgwick S, Alcroft (sub), Ms Williams (sub), Wilson (sub)

**Enquiries to:**

Democratic Services Officer - Tel: 817036

## **MINUTES OF PREVIOUS MEETING**

### **AUDIT COMMITTEE**

**FRIDAY 12 JANUARY 2018 AT 10.05 AM**

**PRESENT:** Councillor Patrick (Chairman), Councillors Mrs Birks, Bowditch, Higgs, Mrs Mallinson, Shepherd and Wilson (as substitute for Councillor S Sidgwick)

**OFFICERS:** Corporate Director of Governance and Regulatory Services  
Chief Finance Officer  
Deputy Chief Finance Officer and Designated Head of Internal Audit  
Principal Auditor

**ALSO**

**PRESENT:** Associate Director (Grant Thornton)  
Audit Manager (Grant Thornton)  
  
Deputy Leader, and Finance, Governance and Resources Portfolio Holder

#### **AUC.01/18 CHAIRMAN'S COMMENTS**

The Chairman welcomed all those present to the first meeting of the Committee in the New Year.

#### **AUC.02/18 APOLOGY FOR ABSENCE**

An apology for absence was submitted on behalf of Councillor S Sidgwick.

#### **AUC.03/18 DECLARATIONS OF INTEREST**

There were no declarations of interest affecting the business to be transacted at the meeting.

#### **AUC.04/18 PUBLIC AND PRESS**

**RESOLVED** – That the Agenda be agreed as circulated.

#### **AUC.05/18 MINUTES OF PREVIOUS MEETING**

The Minutes of the meeting of the Audit Committee held on 27 September 2017 were submitted.

**RESOLVED** – That the Minutes of the meeting of the Audit Committee held on 27 September 2017 be agreed as a correct record and signed by the Chairman.

## **AUC.06/18      MINUTES OF BUSINESS AND TRANSFORMATION SCRUTINY PANEL**

The Minutes of the meetings of the Business and Transformation Scrutiny Panel held on 14 September, 26 October and 5 December 2017 were submitted for information.

RESOLVED – That the Minutes of the meetings of the Business and Transformation Scrutiny Panel held on 14 September, 26 October and 5 December 2017 be noted and received.

## **AUC.07/18      EXTERNAL AUDIT PROGRESS REPORT AND SECTOR UPDATE**

The Chief Finance Officer referenced the public sector audit appointments process, informing the Committee that it was announced on 19 December 2017 that Grant Thornton had been awarded the contact for the next five year period. The appointment did not include Housing Benefit certification and a separate county-wide procurement process was being undertaken on that aspect.

Members recognised the good working relationship between Grant Thornton and the City Council; commented upon the positive nature of the appointment decision; and congratulated Grant Thornton on their success.

The Associate Director (Grant Thornton) summarised the procurement process, explaining that Grant Thornton was now the largest external audit provider across the public sector in England. The external audit team would be unchanged and they were delighted with the outcome.

The Associate Director (Grant Thornton) submitted a paper detailing progress in delivering Grant Thornton's responsibilities as the Council's external auditors.

The Associate Director summarised the introductory information and progress at December 2017 in terms of the Financial Statements Audit; Value for Money and other areas, together with the Audit Deliverables (pages 43 - 45 of the document pack referred). He was confident that the Council could achieve an earlier close down of the accounts (deadline of July 2018) again this year.

The Audit Manager (Grant Thornton) then presented in some detail the Sector Update which provided an up-to-date summary of emerging national issues and developments. She highlighted the availability of Grant Thornton publications referencing in particular the Commercial Healthcheck: commercial investments and governance, copies of which had been circulated to Members.

Attention was further drawn to the main changes to the Code of Practice on Local Authority Accounting; and the consultation currently being undertaken by DCLG with local authorities and other interested parties on proposed changes to the prudential framework of capital finance.

The Chairman appreciated Grant Thornton's input on the wider perspectives alluded to, together with the updates which were very beneficial to the Committee.

RESOLVED – That the Audit Committee noted and received Grant Thornton's audit progress report and sector update for the year ending 31 March 2018.

## **AUC.08/18      EXTERNAL AUDIT CERTIFICATION WORK 2016/17**

The Audit Manager (Grant Thornton) presented the final version of Grant Thornton's Letter setting out the findings from their certification work for Carlisle City Council for the year ended 31 March 2017.

The Letter recorded that Grant Thornton was required to certify the Housing Benefit subsidy claim submitted by the City Council. That certification typically took place six to nine months after the claim period and represented a final but important part of the process to confirm the Council's entitlement to funding. The Housing Benefit subsidy claim for the financial year 2016/17, which had £27.2 million of subsidy claimed had been certified ten days in advance of the national deadline. Further details of the claims certified were as set out at Appendix A.

The Audit Manager (Grant Thornton) highlighted the two errors in income testing from their certification work, noted at Appendix A. A qualification letter was required to report the income testing errors to the Department of Work and Pensions but, as one error identified resulted in an underpayment and another had nil impact on benefit, no extrapolation table of the potential error was required. It was not anticipated that the DWP would require the Council to undertake further work or provide assurances on the errors identified.

There were other areas of error noted in 2015/16 which required external audit to carry out extended testing in 2016/17. The areas related to an incorrect rent value in an assessment and incorrect overpayment classifications. The Audit Manager (Grant Thornton) was pleased to report that their initial and extended testing in 2016/17 did not raise any issues in those two areas. Therefore, no specific testing of those would be required in the coming year.

The indicative fee for 2016/17 for the Council was based on the final 2014/15 certification fees, reflecting the amount of work required by the auditor to certify the Housing Benefit subsidy claim that year. The indicative scale fee set by PSAA for the Council for 2016/17 was £14,093. Since the work to certify the 2016/17 was broadly similar to the level of work required in 2014/15 no additional fee was, at this stage, required. Grant Thornton may revisit that should the DWP require additional work to be undertaken in any areas noted in their qualification letter. Further detail on the fee was set out at Appendix B.

In conclusion, the Associate Director and the Audit Manager (Grant Thornton) stated that the letter represented a very positive outcome for the Council.

The Chairman echoed those sentiments, noting the improvements made since last year.

RESOLVED – (1) That the Certification Work Report 2016/17 be received and the positive position noted.

(2) That the appreciation of the Audit Committee be conveyed to the Revenues and Benefits Operations Manager for the training and quality checks undertaken over the past year.

## **AUC.09/18      FINAL ACCOUNTS PROCESS 2017/18**

The Deputy Chief Finance Officer submitted report RD.38/17 providing information on the 2017/18 Final Accounts process.

The Chief Finance Officer reminded Members that the 2016/17 Annual Audit Findings Report, considered by the Committee on 31 July 2017, acknowledged the continuing significant improvements in the final accounts process compared to previous years. Six recommendations were made in the Audit Findings Report, the updated position in relation to which was as recorded at Section 2.1 of the report.

Members were further advised that there were no significant changes to the 2017 Code of Practice on Local Authority Accounting.

The Deputy Chief Finance Officer added that the existing Accounting Policies would be reviewed to reflect the changes in the 2017 Code of Practice and also to provide further explanation of other existing policies. The current policies were attached at Appendix A. Members were asked to consider the accounting policies as outlined to provide the basis for the preparation of the 2017/18 Accounts. Any changes required following review would be reported to the Committee in March 2018.

It was proposed that a training session (for Members) be held in June / July 2018 in order to facilitate their understanding of the Accounts; the accounting policies; and the main changes required as a result of the 2017 Code of Practice.

The Deputy Chief Finance Officer then responded to Members' questions in the following terms:

- What was the current position in terms of heritage assets (section 4.0.11 referred) and was it updated each year?

A full re-valuation of the Council's heritage assets had been undertaken in 2014 by Bonhams of London. That was an extensive exercise and had resulted in updated valuations. All assets were accounted for and shown on the balance sheet.

Although a re-valuation of the entire portfolio was no longer a requirement for accounts purposes under the Code, the Tullie House collections were reviewed and any changes taken into account.

- What was the difference between borrowing / interest rates (Section 2.1, recommendation 5 referred)?

The borrowing requirement related to refinancing of the Stock Issue Loan.

- A Member sought clarification regarding ownership of the statue at the Crown Courts.

The statue was the responsibility of the County Council and fell within their property portfolio.



- Discussions were currently underway with the Auditors / a formal response on their technical view awaited as regards the authority's rationale and workings for the proposed 2017/18 Minimum Revenue Provision 'payment holiday' for previously charged MRP. Would the Council need to change its approach moving forward?

It was not anticipated that a change in approach was required.

The Associate Director added that Grant Thornton would work with the Council on that aspect.

RESOLVED – (1) That the Audit Committee noted the content of Report RD.38/17; and had considered the accounting policies to be used in the preparation of the 2017/18 Accounts.

(2) That it be noted that any changes required to the existing Accounting Policies to reflect the changes in the 2017 Code of Practice would be reported to the March 2018 meeting of the Committee.

### **AUC.10/18      INTERNAL AUDIT PROGRESS QUARTER 3 – 2018/19**

The Designated Head of Internal Audit submitted report RD.39/17 providing an overview of the work carried out by Internal Audit in the third quarter of 2017/18.

Details of progress against the 2017/18 Audit Plan was as shown at Appendix 1.

Three audit reviews and two follow up reviews had been completed in the third quarter: Audit of Section 106 Agreements; Audit of Talkin Tarn and Boathouse Tea Rooms; Audit of Public Health and Safety / Enforcement; Audit follow up of Housing Improvements (Homelife Scheme); and Audit follow up of Carlisle Enterprise Centre. The Internal Audit resource had also been utilised on the work detailed at paragraph 2.3 of the report.

The Designated Head of Internal Audit advised that, in order to provide an effective Internal Audit service, there needed to be an effective measure of the performance it achieved. The table at paragraph 3.1 showed progress against the indicators agreed for 2017/18.

The Chairman noted that the commentary in relation to the Indicator concerning draft reports issued by agreed deadline recorded that no information was available (specific deadlines currently not set). She questioned whether the position would be reviewed next year.

The Designated Head of Internal Audit responded that the matter would be reviewed, in addition to which he would discuss it with CIPFA.

Speaking on the issue of audit recommendations, the Designated Head of Internal Audit informed Members that Appendix 2 showed a summary position of outstanding audit recommendations and progress made against implementation thereof.

Once the agreed implementation date had passed, Internal Audit would ask the responsible officer for an update on progress. The responses would be reported to the next available Audit Committee meeting and, if implemented, would then be removed from the list so that only outstanding recommendations remained. Where the recommendations

related to a partial assurance audit, those would be subject to a formal follow up and would be reported back to Audit Committee separately. New recommendations would be added to the list once final reports were agreed.

He was pleased to report that the actions highlighted in red on the audit follow-up spreadsheet had now been implemented.

In accordance with the Public Sector Internal Audit Standards the Internal Audit department was required to have a full external assessment of compliance with the Audit Standards. Assessments must be done at least once every five years by a qualified, independent assessor from outside the organisation. The last review was performed in 2013 by Grant Thornton, covering the Shared Internal Audit Service. Results were reported to the Audit Committee on 24 January 2014.

Members of the Audit Committee also requested that a review be undertaken on the provision of the Internal Audit Service following the termination of the Audit Shared Service arrangements.

Following a procurement exercise the City Council had appointed CIPFA to carry out a review in 2018. A preliminary readiness review had been arranged for late January 2018. At that stage the assessor would identify and report to the Council areas for improvement and identify any gaps in the audit process. A full assessment would then be performed in April 2018, with findings from the review being reported to the Audit Committee in 2018/19.

The Designated Head of Internal Audit indicated that the Principal Auditor would provide an overview of the completed audit reviews alluded to, which had received a reasonable or substantial assurance opinion.

The Principal Auditor then outlined, in some detail, the above mentioned audits highlighting, in particular, the key points / concerns and associated recommendations.

Members raised the following questions and observations during their consideration of the completed audit reviews:

#### Audit of Section 106 Agreements (Reasonable Assurance Level)

- Paragraph 5.1.3 recorded that the Council only had one Section 106 Monitoring Officer in post responsible for ensuring the delivery of such Section 106 obligations. On occasion items had not been progressed in a timely manner. Was the Deputy Leader, and Finance, Governance and Resources Portfolio Holder confident that sufficient resources were in place / other members of staff were being trained to cover periods of absence?

The Deputy Leader, and Finance, Governance and Resources Portfolio Holder explained that extensions may have arisen due to the complexity of certain Section 106 Agreements. He had requested a list detailing the updated position and acknowledged that there was still work to do. The Section 106 Monitoring Officer post was reflective of the Council's position. He was satisfied by the resources currently in place at Officer and Member level.

- The agreed action at Recommendation 1 of the Management Action Plan related to the establishment of a procedure and communication protocol for the monitoring / delivery of Section 106 Agreements, building on the work drafted by Policy and Performance. Would the implementation date (1 April 2018) be adhered to?

The Principal Auditor advised that procedures were being put in place, in addition to which a follow-up of the recommendations would be undertaken.

- A Member commented upon the monitoring process for implementation of the recommendations contained within the Action Plan, and questioned whether an update report could be provided immediately after the 1 April 2018 deadline.

The Member also suggested that a list be provided detailing how many Section 106 Agreements had been approved through the planning process in order to facilitate monitoring.

The Chairman reminded the Member that the audit review had been given a reasonable assurance rating, and that the Committee would receive a follow-up of recommendations implemented in due course. It may also be possible to ask Scrutiny to look at Section 106 Agreements moving forward.

On the latter point, the Deputy Leader referenced the position regarding maintenance of green spaces, together with the provision of capital funding.

The Chief Finance Officer added that the income received via Section 106 Agreements was monitored and reported as part of the quarterly monitoring reports submitted to the Executive. Members could take assurance from the Corporate Director of Economic Development's comments recorded on page 109 of the document pack.

- A Member expressed concern that the issues identified during the audit review may have arisen due to pressures upon staff.

The Chairman welcomed the good and comprehensive audit report, indicating that the Section 106 Working Group could be requested to keep an overview moving forward.

#### Audit of Talkin Tarn and Boathouse Tea Rooms (Reasonable Assurance Level)

- This was a good and in depth audit, the most significant issue being around health and safety. The risk exposure and impact upon the wellbeing of the Council and members of staff was of concern. The staffing issues with regard to seasonal and lone workers must be addressed and monitoring undertaken. A Member suggested that a calendar of reviews should be put in place.

Was any training in place to assist officers in the production of documentation to support the monitoring of the Service Plans (recommendation 1 referred)?

The Corporate Director of Governance and Regulatory Services emphasised that the City Council owned Talkin Tarn and was not operating as a landlord.

- A Member indicated that she could see no evidence that risk assessments were in place, adding that such assessments should be undertaken and reviewed on a three yearly basis.

In response, the Corporate Director of Governance and Regulatory Services summarised the Council's corporate risk management arrangements, confirming that the systems were in place to facilitate appropriate reasonable monitoring. He added that the audit recommendations arising from the review would result in real improvements in the operation of Talkin Tarn.

#### Audit of Public Health and Safety / Enforcement (Reasonable Assurance Level)

The Principal Auditor indicated that he would review the definitions for the audit assurance levels moving forward and report the outcome to the Committee.

- Data protection was a theme throughout the reports which comprised the document pack. It was pleasing to note that it had been identified as an issue and that steps were being taken to ensure compliance with the General Data Protection Regulation.

The Corporate Director of Governance and Regulatory Services outlined the significant work being undertaken with regard to data protection, together with the progress made towards the establishment of an Information Officer post.

- A Member referenced the areas for improvement – the first bullet point (audit testing highlighted that the Accident Reporting procedures need to be updated). He sought clarification of the current position on that important issue.

In response, the Corporate Director of Governance and Regulatory Services advised that there were three responsible bodies, namely the Council; the Health and Safety Executive (HSE); and the Care Quality Commission (CQC). When an accident occurred the appropriate body must be notified. It was noted during the audit that a national issue existed in reporting incidents to the CQC, the matter was being addressed through the appropriate liaison networks and temporary arrangements had been agreed with the HSE to reallocate CQC incident reporting.

#### Audit follow up of Housing Improvements (Homelife Scheme) (Substantial Assurance Level)

- With the exception of recommendation 11 (which was in progress) all of the recommendations had been actioned. That demonstrated the proactive nature of the response by Managers.

The Chairman commented upon the very positive follow-up review, and expressed appreciation of the hard work undertaken. She congratulated the Corporate Director of Governance and Regulatory services on the achievement of a substantial assurance opinion.

#### Audit follow up of Carlisle Enterprise Centre (Substantial Assurance Level)

- A Member noted that the implementation date for recommendation 5 (page 183 of the document pack) was 31 March 2017 and that the action was 'in progress'. She sought clarification of progress achieved.

The Audit Manager replied that work on the agreed action had commenced and was ongoing.

The Corporate Director of Governance and Regulatory Services commented that, although Internal Audit remained independent, there was a real and noticeable desire to add value to the services provided by the authority through constructive discussions with Officers as part of the audit review process.

The Chairman agreed that the in-house Internal Audit Service seemed to be working well.

**RESOLVED – That the Audit Committee:**

- (1) Noted the progress against the Audit Plan for 2017/18 set out within Report RD.39/17.
- (2) Received the final audit reports outlined in paragraph 2.2, subject to the following:
  - (a) The comprehensive audit review of Section 106 Agreements be welcomed; and the Section 106 Working Group requested to keep an overview of the position in terms of resources moving forward.
  - (b) The Audit Committee welcomed the comprehensive audit review of Talkin Tarn and the Boathouse Tearooms, which would facilitate the operation of Talkin Tarn; noted that the issues identified were being addressed and that the Council was aware of them.
  - (c) The Committee noted the substantial assurance ratings in respect of the follow-up reviews of the Homelife Service and Carlisle Enterprise Centre, and was appreciative of the hard work undertaken.

**AUC.11/18      DRAFT TREASURY MANAGEMENT STRATEGY STATEMENT,  
INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION  
STRATEGY 2018/19**

The Deputy Chief Finance Officer submitted report RD.37/17 setting out the Council's draft Treasury Management Strategy Statement for 2018/19 in accordance with the CIPFA Code of Practice on Treasury Management. The draft Investment Strategy and the draft Minimum Revenue Provision (MRP) Strategy for 2018/19 were incorporated as part of the Statement, as were the Prudential Indicators as required within the Prudential Code for Capital Finance in Local Authorities.

Members were informed that:

- The Council had revised its MRP Policy in 2017/18 to provide for MRP on a 3% straight Line basis going forward, which would continue this year.
- CIPFA was currently conducting a review of the Treasury Management Code of Practice and the Prudential Code focusing, in particular, on non-treasury investments and especially on the purchase of property with a view to generating income. Such purchases could involve undertaking external borrowing to raise the cash to finance those purchases, or the use of existing cash balances. Both actions would affect treasury management. As finalised revised codes were not expected

until December at the earliest, it may be necessary to review the TMSS once the final guidelines were issued and any implications on the Council's position was known.

- The Council was not currently expecting to have any recourse to borrowing externally in 2018/19, but any significant capital expenditure for example on new leisure facilities may facilitate a change.

The Executive and the Business and Transformation Scrutiny Panel had considered the matter on 18 December 2017 and 4 January 2018 respectively. Excerpts from the Minutes of those meetings were also submitted (EX.135/17) and (BTSP.07/18) referred.

Members were asked to note and comment upon the proposed Treasury Management Strategy for 2018/19.

The undernoted issues / questions were raised in discussion:

- The Business and Transformation Scrutiny Panel had requested a training or briefing session to facilitate their understanding of the document. Had that been arranged?

The Deputy Chief Finance Officer replied that the training would take place at 10.00 am on 25 January 2018, with the focus primarily being on borrowing / the Minimum Revenue Provision Strategy. The remaining elements would be looked at later in the year.

- The risks to current forecasts for UK gilt yields and PWLB rates, identified on page 200 of the document pack, were of particular interest.
- The chart at section 5.4 showed the level of cash resources the Council was anticipated to hold over the same period. A Member sought further explanation of the deficit from 2021 – 2023.

In response, the Deputy Chief Finance Officer explained that the graph showed that the Council had a borrowing requirement in those years. The figures were based upon the £19.5 m included in the draft Executive Budget Proposals issued for consultation on 18 December 2017. The charts would be amended pending a decision being taken on the matter.

- What financial planning period would be prudent in terms of the Sands Centre redevelopment?

The Deputy Chief Finance Officer outlined the anticipated funding options for the scheme, emphasising that many complex factors required to be taken into account.

The Chief Finance Officer added that Executive approval for borrowing was in place and had been for the last eighteen months. Consideration would require to be given to the available options prior to any decision being taken.

The Chairman expressed a preference for terms (e.g. Fed and DCLG) to be recorded in full within the report, in response to which the Deputy Chief Finance Officer undertook to amend the report accordingly.

The Chairman commended the Deputy Chief Finance Officer for what was a good and interesting report.

RESOLVED – That, subject to the observations detailed above, the Treasury Management Strategy Statement, Investment Strategy and Minimum Revenue Provision Strategy 2018/19 be noted.

**AUC.12/18      TREASURY MANAGEMENT SEPTEMBER 2017 AND FORECASTS  
FOR 2018/19 TO 2022/23**

The Deputy Chief Finance Officer presented report RD.30/17 providing the regular quarterly summary of Treasury Management Transactions for the second quarter of 2017/18, together with budgetary projections for 2018/19 to 2022/23.

Interest receivable was slightly below expectations due to lower than forecast average cash balances and a lower rate of return being achieved on treasury investments when compared to when the budgets were set. The CCLA property investment saw a decrease in the capital value to the end of June, but had steadied since in the second quarter with the valuation remaining at a similar level. Dividends and yield remained at over 4.60%

The Executive had, on 20 November 2017, received Report RD.30/17 and the projections for 2018/19 to 2022/23 incorporated into the Budget reports considered elsewhere on the Executive Agenda (Minute EX.119/17 referred).

Speaking in response to Members' questions, the Deputy Chief Finance Officer clarified that:

- The base treasury management estimates included £15,000 for sector; the contract figure being £11,000.

The Chairman asked that 'Sector' should be referred to as 'Link Asset Services' in future to aide understanding.

- Procedures adopted to map cash flow more accurately and ensure better forecasting meant that overnight borrowing had not been needed in recent years.

RESOLVED – That Report RD.30/17 be noted.

[The meeting ended at 11.20 am]





**BUSINESS AND TRANSFORMATION SCRUTINY PANEL**

**THURSDAY 4 JANUARY 2018 AT 10.05AM**

- PRESENT:** Councillor Mrs Riddle (Chairman), Councillors Allison (until 11.58am), Mrs Bowman, Mrs Glendinning, Mallinson J, McDonald (as substitute for Councillor Mrs Birks) and Watson (until 11.55am).
- ALSO PRESENT:** Councillor Dr Tickner – Deputy Leader, and Finance, Governance and Resources Portfolio Holder  
Councillor Burns – Vice-Chairman of the Health and Wellbeing Scrutiny Panel
- OFFICERS:** Town Clerk and Chief Executive  
Chief Finance Officer  
Deputy Chief Finance Officer  
Customer Services Manager  
Service Support Manager  
Policy and Communications Manager

**BTSP.01/18 APOLOGIES FOR ABSENCE**

Apologies for absence were submitted on behalf of Councillor Birks and Councillor Robson.

**BTSP.02/18 DECLARATIONS OF INTEREST**

There were no declarations of interest affecting the business to be transacted at the meeting.

**BTSP.03/18 PUBLIC AND PRESS**

**RESOLVED** - It was agreed that the items of business in Part A be dealt with in public and Part B be dealt with in private.

**BTSP.04/18 MINUTES OF PREVIOUS MEETINGS**

A Member highlighted the resolution for BTSP.42/17(d) and commented that the last recommendation had been a resolution of the Portfolio Holder and not the Panel.

The Chief Finance Officer confirmed that the amendment had been made and could be viewed on page 86 of the Agenda Document Pack.

**RESOLVED** – 1) That the minutes of the meeting held on 5 December 2017 be approved with the following amendment to resolution BTSP.42/17(d):

4) That the Panel support the recommendation by the Finance, Governance and Resources Portfolio Holder that the following line be removed from Section 6.2 of the revised capital programme 2017/18 and Provisional Capital Programme 2018/19 to 2022/23:

No major one-off schemes unless fully funded from grants of external funding

2) That the Chief Finance Officer provide Panel Members with information on the use of additional contributions to the Public Realm Scheme

## **BTSP.05/18          CALL - IN OF DECISIONS**

There were no items which had been the subject of call-in.

## **BTSP.06/18          OVERVIEW REPORT AND WORK PROGRAMME**

The Policy and Communications Manager presented report OS.01/18 providing an overview of matters relating to the work of the Business and Transformation Scrutiny Panel.

The Notice of Executive Key Decisions had been published on 18 December 2017. The following items included in the Notice fell within the Panel's remit:

*Items which had been included in the Panel's Work Programme:*

KD.23/17 – Budget Process 2018/19

KD.33/17 – Sands Centre Redevelopment (Special meeting)

KD.35/17 – Action Plan – Disabled Facilities Grant 2017 to 2019. This matter would be considered by the Health and Wellbeing Scrutiny Panel in February 2018.

*Items which had not been included in the Panel's Work Programme:*

KD.34/17 – Civic Centre – Ground Floor Reinstatement. This matter was likely to be considered by the Panel in February 2018.

The report included a table of the progress on resolutions from previous meetings. Since the publication of the report the following matters had been completed:

- Sexual Assault Referral Service
- Harraby Cycle Track Project
- Community Infrastructure Levy
- Adriano's
- Bitts Park Lodge

The Sands Centre Redevelopment would be considered by a special joint meeting of the Business and Transformation and Health and Wellbeing Scrutiny Panels on 29 January 2018.

The Panel's Work Programme had been attached as appendix 1 to the report for the Panel's consideration.

The Chairman reported that the Community Asset Transfer Task and Finish Group had a volunteer from each of the Economic Growth and Health and Wellbeing Scrutiny Panels and would the first meeting of the Group had been arranged.

RESOLVED – That the Overview Report incorporating the Work Programme and Key Decision items relevant to the Business and Transformation Scrutiny Panel (OS.01/18) be noted.

## **BTSP.07/18          BUDGET 2018/19**

The Chairman welcomed the Vice Chairman of the Health and Wellbeing Scrutiny Panel to the meeting.

## **(1) Executive's response to the first round of Budget Scrutiny**

Minutes of the meeting of the Executive held on 11 December 2017 were submitted detailing the response of the Executive to the comments made by the Scrutiny Panels in response to the first round of Budget scrutiny.

At the request of the Panel the Chief Finance Officer outlined the changes which had been made to the proposed budget since the Panel's last meeting in December 2017. The following key changes had been built into the budget –

- Removal of the proposed reduction to the Civic Centre Car Park charge for 4 - 9.5 hour period
- Removal of the proposed reduction to specific charges at the Old Fire Station
- Addition of a grant to Carlisle Food Bank
- Implications of the Sands Centre Redevelopment.

The Chief Finance Officer agreed to prepare a summary of the key changes to the budget in future and reminded the Panel that the RSG information had not been known at the time of publication and as a result there would be some amendments to the final budget.

The Finance, Governance and Resources Portfolio Holder added that the consultation period for the budget would end on 15 January and therefore the budget may change in response to any response received.

RESOLVED – That the decisions of the Executive on 11 December 2017 be received.

## **(2) Executive Draft Budget Proposals**

There was submitted the Executive draft Budget proposals 2018/19 which had been issued for consultation purposes.

The budget proposals were based on detailed proposals that had been considered by the Executive over the course of the last few months. In particular the reports of the Chief Finance Officer were considered at the Executive meeting of 18 December 2017.

The Chief Finance Officer drew the Panel's attention to Schedules 2 to 6 in the budget proposals and reported that the draft RSG figures of an additional £166,000 for 2018/19 and £149,000 for 2019/20 had been announced. The final figures would be confirmed at the end of January 2018. The budget assumed an £5 increase per Band D in Council Tax for the City Council. The Government had increased the general council tax referendum limit from 1.99% to 2.99%. If the Council had been minded to increase the council tax by 2.99% it would achieve a further £35,000 per annum.

In considering the Draft Budget Proposals Members raised the following comments and questions:

- Would the Executive be considering an increase in the Council Tax to the full 2.99%?

The Finance, Governance and Resources Portfolio Holder responded that discussions would take place on the council tax increase and the Executive would then make their recommendation to Council.

- The Budget proposed a reduction of £300,000 to Tullie House funding, a Member was concerned that the service may come back in house.

The Town Clerk and Chief Executive reminded that Panel that the productivity report, jointly commissioned with Tullie House, identified that up to £300,000 per annum could be saved from the subsidy provided to the Trust effective from 2020/21. There was no evidence to suggest that the Trust would not continue to run Tullie House.

- A Member commented that he would not like to see the sale of capital assets used to fund the Leisure Development as he felt it counteracted the original idea of the Asset Management Plan.

The Chief Executive clarified that the detailed discussions on the Leisure Development had not yet happened; however, he felt the option of disposing of low yield capital assets in a transparent way to fund the proposed development and improve the leisure offer within the City would be appropriate. Members would be asked to make the decision for the Leisure Development with all of the information and public consultation responses available to them.

- The change from a subsidy to a surplus with the Leisure Contract was excellent and a Member suggested that the surplus be used to support the Leisure Development.

The Chief Executive confirmed that the changes to the Leisure Contract meant that investment in the facilities would increase income and reduce the requirement for a subsidy. The income that would then come from the leisure contract and the savings in the subsidy would then pay the loan.

- A Member was uncomfortable with the possibility that the Council could be borrowing £30m.

The Chief Executive responded that there was risk associated with the finances of the Leisure Development and they had to be considered alongside the benefit to the people of Carlisle. No decisions would be taken without Members knowledge and full understanding. He understood that Members would seek to fully understand the risks and how they would be managed.

A Member reminded the Panel that the project met the aspirations of the Carlisle Plan.

A Member commented that he was not concerned about the possibility of a £30m loan as long as it was entered into as a repayment loan and felt the terms of borrowing were more suitable now.

A Member added that it was important to remember that the decision making process had to take into account the social needs of the community as well as the financial responsibilities of the Council.

- The proposals reported that the phasing in of 100% retention of business rates was one of the main risks to the robustness of the estimates, how would this risk be dealt with?

The Chief Finance Officer responded that it was not known what the burden of Business Rate Retention would be. The budget therefore only assumed a small inflationary increase in the business rate base line for 2020/21 onwards. The Council had submitted a bid for the Business Rate pilot for 100% retention in 2018/19 but had not been successful and as result the continuing pooling arrangements with other Cumbrian Councils was being discussed.

- A Member asked that scrutiny have the opportunity to scrutinise the business cases for the proposed capital programme schemes as detailed in schedule 8.

The Chief Finance Officer responded that the projects marked with an 'A' in schedule 8 would be subject to further reports to the Executive, including a full business case, prior to the release of any reserves or any expenditure incurred.

The Town Clerk and Chief Executive added that some of the business cases would be for minor schemes; however, Scrutiny had the opportunity to call in any businesses cases if they were not happy with the decision made.

A Member agreed that the call in process was available to the Panel but felt it could be confrontational and suggested that the Panels made the decision to ask for the business cases they wanted to scrutinise.

- Why did the budget still have a GLL reserve?

The Chief Finance Officer explained that the reserve had been reduced but it had been retained to enable the Council to replace equipment at the end of the leisure contract if necessary.

- Was there any contingency built into the budget with regard to the Leisure Development?

The Chief Finance Officer clarified that there was no centrally held contingency for the revenue budget as the individual budgets included provision for inflation however there would be contingency built into the Leisure Development capital budget.

RESOLVED – 1) That the comments and concerns of the Panel as set out above regarding the Executive draft Budget Proposal be forwarded to the Executive for their consideration.;

2) That the Scrutiny Panels add specific capital programme schemes to their future Work Programme as they required.

### **(3) Background Information Reports**

#### **(a) Budget Update – Revenue Estimates 2017/18 to 2021/22**

The Chief Finance Officer submitted report RD.35/17 providing a draft summary of the Council's revised revenue estimates for 2017/18, together with base estimates for 2018/19 and updated projections to 2022/23. The report included the impact of the new savings and new spending pressures currently under consideration and the potential impact on the Council's overall revenue reserves.

The Executive had considered the matter on 18 December 2017 (EX.133/17 refers) and decided:

"That the Executive:

- (i) Noted the revised base estimates for 2017/18 and base estimates for 2018/19.
- (ii) Noted that the estimates in Report RD.35/17 were draft and would be subject to the confirmation of Local Government Finance Settlement in December 2017.
- (iii) Noted the current MTFP projections, which would continue to be updated throughout the budget process as key issues become clearer and decisions were taken.
- (iv) Noted the budget pressures/savings needing to be taken into account as part of the 2018/19 budget process.
- (v) Noted the Statutory Report of the Chief Finance Officer outlining the risks associated with the draft budget figures and that minimum reserves may need to be increased in the future depending upon the outcome of the Local Government Finance review."

RESOLVED –That the Budget Update – Revenue Estimates 2018/19 to 2022/23 (RD.35/17) be noted.

**(b) Revised Capital Programme 2017/18 and Provisional Capital Programme 2018/19 to 2022/23**

The Chief Finance Officer submitted report RD.36/17 which provided a draft summary of the Council's revised capital estimates for 2017/18 together with base estimates for 2018/19 and updated projections to 2022/23.

The Executive had considered the matter on 18 December 2017 (EX.134/17 refers) and decided:

“That the Executive:

- (i) Noted the revised capital programme and relevant financing for 2017/18 as set out in Appendices A and B to Report RD.36/17.
- (ii) Had given consideration and views on the proposed capital spending for 2018/19 to 2022/23 given in the report in the light of the estimated available resources.
- (iii) Noted that any capital scheme for which funding had been approved by Council may only proceed after a full report, including business case and financial appraisal, had been approved.”

RESOLVED –That the Revised Capital Programme 2017/18 and Provisional Capital Programme 2018/19 to 2022/23 (RD.36/17) be noted.

**(c) Treasury Management Strategy Statement, Investment Strategy and Minimum Revenue Provision Strategy 2018/19**

The Deputy Chief Finance Officer presented report RD.37/17 setting out the Council's draft Treasury Management Strategy Statement (TMSS) for 2018/19 in accordance with the CIPFA Code of Practice on Treasury Management.

He informed Members that the draft Investment Strategy and the draft Minimum Revenue Provision Strategy for 2018/19 were incorporated as part of the Statement, as were the Prudential Indicators as required within the Prudential Code for Capital Finance in Local Authorities.

CIPFA was currently conducting a review of the Treasury Management Code of Practice and the Prudential Code focussing, in particular, on non-treasury investments and especially on the purchase of property with a view to generating income. Such purchases could involve undertaking external borrowing to raise the cash to finance those purchases, or the use of existing cash balances. Both actions would affect treasury management. As finalised revised codes were not expected until December at the earliest, it may be necessary to review the TMSS once the final guidelines were issued and any implications on the Council's position was known.

The Executive had considered the matter on 18 December 2017 (EX.135/17 refers) and noted the Draft Treasury Management Strategy Statement for 2018/19, which incorporated the Draft Investment Strategy and the Draft Minimum Revenue Provision (MRP) Strategy, together with the Prudential Indicators for 2018/19 for draft budget consultation purposes as set out in Appendix A and the Treasury Management Policy Statement as set out at Appendix D to Report RD.37/17.



In considering the report Members raised the following comments and questions:

- Was there a cost for the services provided by Link Asset Services and was it value for money.

The Deputy Chief Finance Officer responded that Link Asset Services had been appointed for four years following a retender exercise in 2017. The service cost £11,000 per annum and provided free training, quarterly meetings with the Relationship Manager, monthly investment analysis and daily reports on interest rates and market forecasts.

- Could the Council secure a credit rating from a bond credit rating business?

The Deputy Chief Finance Officer responded that the Council did not need a credit rating as a local authority. He added that the credit rating did not affect the ability to borrow; any borrowing the Council took out would come from a Public Work Loan Board which was a loan from Central Government. The Council was assuming a 25 year principal repayment loan, however, it was likely that the Council would take a mix and match approach using different products to enable some flexibility for the future and minimise the overall cost of borrowing as far as possible.

- Members found the document difficult to understand and asked if a training or briefing session could be arranged.

The Deputy Chief Finance Officer confirmed that a full briefing on Treasury Management and the implications on the Leisure Development would be carried out.

RESOLVED –1) That the Treasury Management Strategy Statement, Investment Strategy and Minimum Revenue Provision Strategy 2018/19 (RD.37/17) be noted.

2) That the Panel receive appropriate training on the Treasury Management Statement.

## **BTSP.08/18      FINAL FLOOD UPDATE REPORT**

The Town Clerk and Chief Executive presented the final update report (CS.09/18) on flood recovery activities and any future programmed work.

The Chief Executive stated that the report set out a final update of the work associated with recovery from the 2015 floods and emerging plans to deal with any such future events. During the last two years an extensive range of recovery activities had been undertaken, the work areas had been outlined in the report. The Chief Executive outlined the City Council asset recovery programme and detailed the flood grants and household payments which had been made.

He informed the Panel that the Council continued to work in partnership with the Environment Agency, County Council and other partners on resilience and resistant measures to address specific issues which arose from the floods in December 2015 and manage flood risk in the future. A further round of public engagement would take place in the new year on a shortlist of interventions, this would be followed by tenders for design and build, business case development followed by implementation. A special Economic Growth Scrutiny Panel had been arranged for 8 February 2018 to consider the future of flood risk management in Carlisle.

The Carlisle Emergency Plan had been reviewed and signed off by Senior Management Team. Additional locations for Reception centres had been identified and a risk assessment for each location had been carried out. Once an agreement had been reached with the centres owners

and operators they would be added to the Carlisle Emergency Plan and Cumbria Resilience Forum Welfare Plan.

In considering the report Members raised the following comments and questions:

- What was the date for settlement with the Loss Adjuster for the Shaddongate Resource Centre?

The Chief Executive agreed to provide Members with a written response.

- Some of the Council assets had some outstanding 'snagging'. Some of the issues that were outstanding were not minor issues and should not be reported as 'snagging'.

The Chief Executive commented that the experience of Members, Officers and users of the services had been frustrating and he would be preparing a report on the lessons learned from the flood and the document would be shared widely.

- A Member asked if the Town Clerk and Chief Executive had been satisfied that everything that could have been done had been done with regards to the flood in 2015.

The Chief Executive responded that it would have been beneficial if there had been more resources available. The Environment Agency was carrying out an inclusive consultation process on their data analysis of all the options and ideas. He added that there needed to be some understanding that the flood scheme which was in place performed to the specifications it had been designed for, the water had gone over the top of the flood defences rather than the defences failing.

The Policy and Communications Manager reminded the Panel that the Special Economic Growth Scrutiny Panel on 8 February 2018 would give consideration to the future flood risk management in Carlisle.

- Would the cost of the works to the ground floor of the Civic Centre be covered by the insurance?

The Finance, Governance and Resources Portfolio Holder confirmed that the ground floor works would be covered by the insurance and the plans also had the potential to create income.

- Were there any resilience grants available for properties which had recently been flooded?

The Chief Executive explained that the Flood Resilience Grants had been a Government Scheme administered by the Council. There were no grants available for properties recently flooded. He added that he had raised the matter with the Environment Agency and felt strongly that support should be made available to properties in flood risk areas before they flood to enable them to build in resilience.

A Member added that there had been problems for tenants in flats that were managed by a company as they were not eligible to apply for the grant. There was concern that those tenants could face similar issues in the future and the Panel asked if the issue had been resolved.

The Panel felt strongly that support should be made available to flood risk properties and asked the Chief Executive to write to the Environment Agency to raise the issues detailed above.

- The report detailed the recovery of Bitts Park and the Bitts Park Lodge, the Panel had previously raised an issue regarding out of hours access to the toilets and this matter had not been addressed in the report. The Panel asked that careful consideration be given to out of hours access to the toilets and the security of the toilets. The Panel suggested that



the opening hours could be different in winter and summer and that remote locking be used to keep the toilets secure.

RESOLVED – 1) That the Final Flood Update Report (CS.09/18) be noted;

2) That the settlement date for the Shaddongate Resource Centre be circulated to the Panel.

3) That the Town and Clerk and Chief Executive's 'Lessons Learned' report on the Flood 2015 be added to the Panel's future Work Programme.

4) That the Town Clerk and Chief Executive write to the Environment Agency asking them to provide support to flood risk properties as a preventative measure, that flood resilience grants are made available as a matter of course for flooded properties and to ask them if the issue regarding flood resilience grants to tenants in flats with management companies had been addressed.

## **BTSP.09/18      CUSTOMER SERVICES UPDATE**

The Service Support Manager presented an update on the work within customer services and in the main the Smarter Service Delivery (SSD) Project.

The Service Support Manager reminded the Panel of the background of customer services and then outlined the progress made with the Carlisle City Council website, the success of the 'My Account' project and the Salesforce platform as detailed within the report. He highlighted the issues with the temporary portacabin that was being used as the Customer Services Centre and stated that Customer Services had been involved in the proposed reinstatement of the Civic centre ground floor.

He drew attention to the introduction of Risk Based Verification which significantly reduced the administration of Housing Benefits claims. He detailed how the system would work adding that the use of the online applications allowed staff to prepare for the upcoming Universal Credit Full Service which was due to go live in July 2018.

The Service Support Manager detailed the partnership working within Customer Services and reported that work was being undertaken with the Department of Works and Pensions Fraud Section, Cumbria Constabulary and Her Majesty's Passport Office.

The Service Support Manager informed the Panel that the Smarter Service Delivery (SSD) project had been shortlisted for an inetwork award for the category of Innovative Access for Public Services. An award ceremony would be held on 30 January 2018 and the winner would be announced on the evening.

In considering the report Members raised the following comments and questions:

- The Panel congratulated the Customer Services Team for their continued success with the website, SSD project and for maintaining an excellent service whilst in temporary accommodation.
- A Member commented that the only complaint he had received was regarding the telephone response times, had this been addressed?

The Customer Services Manager responded that the issue had been addressed where possible. It was difficult to always predict busy periods, however, known peaks times did have additional resources allocated to deal with the calls.

The Service Support Manager added that it was important to control customer expectations and emails from Customer Services were sent out with a clear expected response time.

- Some Members had not been aware that customer contact centre staff carried out a passport service and they asked how this had been advertised.

The Customer Services Manager responded that staff carried out a passport interview service for first time adult passports with remote links to the Glasgow office. The Glasgow office made the appointments and advertised the service.

- Members supported the promotion of the 'My Account' on the Council's website but understood that some people would not be able to set up an account or want to have an electronic account at all.

The Customer Services Manager agreed that the system was daunting to some people and explained that members of the public were welcome to come to Customer Contact Centre and staff would set up the account for them. As more people signed up to the electronic account it freed up staff to provide support to those who did not want to have on line accounts. Likewise staff were available to support vulnerable people in the community either face to face or on the telephone. She added that the online sign up for 'My Account' was the highest sign up in the North West.

RESOLVED – 1) That the Customer Services Update be welcomed (CE.01/18)

2) That Customer Contact staff be congratulated on their continuing improvements to service, their partnership working and for maintaining an excellent service in a temporary environment. In addition the Panel congratulated the Smarter Service Delivery Team for being shortlisted for an inetwork award.

3) That a further update on the Customer Contact Centre be added to the Panel's future Work Programme.

(The meeting ended at 12.01pm)

**JOINT MEETING OF THE BUSINESS AND TRANSFORMATION SCRUTINY PANEL  
AND THE HEALTH AND WELLBEING SCRUTINY PANEL**

**MONDAY 29 JANUARY 2018 AT 10.00AM**

**PRESENT:** Councillor Mrs Riddle (Chairman), Councillors Allison, Birks, Bloxham (as substitute for Councillor Layden), Mrs Bowman, Burns, Ellis, Mrs Glendinning (until 1:21pm), Mallinson E, Mallinson J, McDonald, McNulty, Paton (until 1:23pm), S Sidgwick, Shepherd (as substitute for Councillor Robson) and Watson.

**ALSO PRESENT:** Councillor Quilter – Culture, Leisure and Heritage Portfolio Holder  
Councillor Bradley – Economy, Enterprise and Housing Portfolio Holder  
Mr Paul Denson – Pick Everard  
Mr Mark Dando – Pick Everard  
Simon Dunstan – GT3 Architects  
Paul Reed – GT3 Architects  
John Finlayson – Buro Happold  
Duncan Ker-Reid – Buro Happold  
Tom Rice – Greenwich Leisure Limited  
Councillor Bainbridge – (Observer)  
Councillor Finlayson – (Observer)

**OFFICERS:** Deputy Chief Executive  
Deputy Chief Finance Officer  
Contracts and Community Services Manager  
Policy and Communications Manager

**SJSP.01/18      APPOINTMENT OF CHAIRMAN**

RESOLVED - That Councillor Mrs Riddle be appointed Chairman for the meeting.

**SJSP.02/18      APOLOGIES FOR ABSENCE**

Apologies for absence were submitted on behalf of Councillor Layden and Councillor Robson.

**SJSP.03/18      DECLARATIONS OF INTEREST**

There were no declarations of interest affecting the business to be transacted at the meeting.

**SJSP.04/18      PUBLIC AND PRESS**

RESOLVED - It was agreed that the items of business in Part A be dealt with in public and Part B be dealt with in private.

**SJSP.05/18      SANDS CENTRE REDEVELOPMENT**

The Chairman welcomed Messrs Denson, Dando, Dunstan, Reed, Finlayson, Ker-Reid, and Rice to the meeting.

The Chairman advised that as the Special Meeting comprised two Panels, in order to retain sovereignty over the scrutiny of those aspects of the Sands Centre Re-development project

relevant to the remits of the individual Panel, each Chairman would put forward recommendations on behalf of their respective Panel.

## **OVERVIEW OF THE PROPOSED DEVELOPMENT**

The Contracts and Community Services Manager presented report CS.10/18 Sands Centre Redevelopment, and he outlined the history of plans to redevelop the Sands Centre, noting that the aging of The Pools facilities on James Street had been a significant factor in the Council retaining the ambition to provide new sporting facilities in the city. In 2013 the Council had adopted the Sports Facilities Strategy 2013 – 2025 which had been based on an indoor and outdoor facilities needs assessment and set out the authority's vision for sports facility development in the district. The Strategy recommended that a replacement swimming pool, additional sports hall and improved health and fitness facilities be developed at the Sands Centre to maximise the benefits of the site's strategic location, and the generation of operational efficiencies and cross subsidisation as a result of the co-location of sports and cultural facilities in one venue.

Following the adoption of the Strategy, the Council had continued to explore redevelopment options in tandem with its re-tendering of the Leisure Contract. The Contracts and Community Services Manager provided an overview of the re-tendering process and noted the importance of the new contract in enabling the Council to fund a proportion of the Sands Centre redevelopment. The new Leisure Contract had been approved by the Executive in November 2017 and made provision for an annual subsidy to Greenwich Leisure Limited (Principal Leisure Operator) to operate the Council's Leisure Facilities in their current format. Following the completion of the Sands Centre Redevelopment the Council would receive payment from Greenwich Leisure Limited that, over the life of the contract would result in a significant net payment to the Council.

In the summer of 2017, the Council had commissioned a design team to work up a Royal Institute of British Architect's (RIBA) Stage 2 Outline Design for the Sands Centre, incorporating full cost estimate and anticipated programme of works. Pick Everard and GT3 had been selected by means of competitive tender to realise the project management and design roles.

In response to questions from Members the Contracts and Community Services Manager advised:

- An outline Business Plan for the Sands Centre Redevelopment had been considered by the Executive in May 2017 when the Leisure Contract Re-tender exercise had been ongoing. The Plan concluded that relocating the swimming pools only would cost the operator, and ultimately the Council circa £400,000 more than building a full sports and leisure facilities mix on one site. Consequently, the new Leisure Contract incorporated the delivery of a full facilities provision on a single site thereby providing contractual certainty for both the Council and Greenwich Leisure Limited as Principal Leisure Operator. The Contracts and Community Services Manager further noted that the work undertaken on plans for the redevelopment of the Sands Centre, as detailed in the report, were provided to assist Members in understanding the project and aiding the Council's consideration as to whether to proceed with the scheme.
- Responding to concerns raised by a number of Members regarding the possibility of future flooding of the Sands Centre facility, the Contracts and Community Services Manager explained that in 2005 the facility had not flooded and in 2015 only minor damage had occurred at the site. He acknowledged the new facility would comprise a greater amount of equipment and systems, but noted that mitigation measures would be incorporated into the design with a view to decreasing the likelihood of a flood event occurring at the site.

- The identification of the ownership of the land in the Risk Register contained within the report was a standard matter raised in project management procedures for schemes of this nature. The Contracts and Community Services Manager undertook to provide written confirmation to Members that the Sands Centre site was owned by the Council.

## THE SANDS LEISURE CENTRE STAGE 2 REPORT PRESENTATION

*Mr Dunstan and Mr Reed (GT3 Architects)* delivered a presentation to the Panel covering: the RIBA plan process and stages; site analysis including location, movement framework, micro-climate, area character, existing structures at the site, conservation and Listed Structure in the area, zoning and routing, site constraints and opportunities, local colour palette of urban and rural landmarks; the history of the site; the design brief and concept design including the relationship between sport and events space within the proposed new facility, and proposed floor and section plans.

Mr Dunstan explained that as architects of the design stage, GT3 had sought to create a scheme with a broad range of facilities to meet the needs of the communities in the district. The proposed scheme was a unique mixture of sporting and cultural facilities closely located to the urban centre. In terms of addressing flood mitigation measures, he noted that the Buro Happold Engineers had been considering those matters in their work on the scheme.

The following observations and comments were raised in discussion:

- Would the number of car parking spaces provided at the site be reduced?

Mr Reed advised that a number of car parking spaces would be removed from the site to accommodate the new, extended building, although a full transport study would be required to ascertain the exact number of spaces.

Concerns were expressed by a number of Members that the site was not directly accessible by public transport and that residents from the rural areas and the suburban edge of the city necessarily needed to use motor vehicles to access the site and that reducing the number of car parking spaces would negatively impact them. It was noted that the new facility was likely to increase footfall to the site and assurance was sought that the level of car parking provision would be sufficient to meet demand.

The Deputy Chief Executive noted that there were a number of other Council owned and operated car parks in the vicinity of the site and consideration would be given as to how these may be utilised by users of the new Centre, as the project progressed, were Council to approve it.

Mr Dunstan stated that a Travel Plan for the scheme would consider the matter of public transport to the site which was currently difficult for buses to access. Furthermore, it was intended that the design of the car park would be altered to make it more pedestrian and cyclist friendly, giving greater priority to those users than was afforded in the current layout.

A Member asked whether consideration would be given to removing the provision of permitted parking for Council staff at the Swifts Bank car park in order to provide more spaces for Sands Centre users.

The Deputy Chief Executive responded that such matters would be addressed in the next stages of the scheme, were it to secure Council approval. He noted that it was likely that the peak demand times for Sands Centre users would be evening and weekends, when the Swifts Bank car park was not used by Council staff. He was confident that the Council was able to make sufficient car parking provision for those using the Sands Centre.



- Would the multi-purpose use of the concert hall for both cultural events as well as sports be retained in the new facility?

The Contracts and Community Services Manager advised that the multi-purpose nature of the concert hall would be retained so that there was overall flexibility of use within the spaces at the site. The concert hall's primary function would be the delivery of cultural events as it was anticipated that sports provision would be adequately provided for within the remainder of the scheme.

- Had archaeological investigations been carried out at the site?

Mr Dunstan noted that the Sands Centre site had previously been developed during the construction of the existing building. The project had not advanced to the stage where the Validation requirements of the Local Planning Authority had been identified, however, given the location of the site and the knowledge that archaeological artefacts had been discovered in the development of another site in the immediate area of the Sands Centre, those involved with the project would keep a watching brief on the issue going forward.

The Member further commented that she would have like to have seen the disability, equality and environmental impact assessments for the scheme, however, she recognised that the project was in the early stages of development.

Responding to a further question from a Member, Mr Dunstan advised that the void in the first floor over the sports hall area was necessary due to the hall requiring a double height ceiling space.

- A Member requested further detail on the inclusion of a space for National Health Service (NHS) use in the proposed scheme.

The Deputy Chief Executive advised that Officers had been in dialogue with the hospital regarding the provision of a space from which NHS services such as physiotherapy could be delivered. Officers felt that the inclusion of such provision within the scheme was helpful in alleviating pressures on services and the hospital and beneficial in providing health and wellbeing services to Sands Centre users. He advised that no formal decision had been taken and that discussions with the NHS on the matter were ongoing.

The Member responded that should the hospital wish to utilise space within the new centre to deliver services, the Council needed to secure a Letter of Intent from the NHS at the earliest opportunity in order that the relevant design specifications were able to be included in the scheme.

- Would the redeveloped site be accessible to mobility scooter users?

Mr Reed explained that site accessibility was a key consideration in the design phase of the project and it was planned that the whole facility would have level access to enable wheelchair and mobility scooter users to enter and use the site.

- Had the Council in commissioning the design brief requested that proposals for other sites in the city be developed?

Mr Dunstan responded that the Council had only indicated the existing Sands Centre site for the new facility. In developing the brief designers had sought to create a facility that would meet the needs of all users.

- Had the Greenwich Leisure Limited been involved in the design stage of the proposed scheme?

The Contracts and Community Services Manager confirmed that Greenwich Leisure Limited, following its appointment as the Council's Principal Leisure Contractor had been closely involved in the design stage.

- What opportunity would the Council's Scrutiny Panels have to contribute to the project going forward?

The Deputy Chief Executive outlined the next steps for the project in the Council's democratic decision making process. He drew Members' attention to the RIBA Design Plan stages detailed in the presentation and suggested that Members may wish to receive further reports at the end of each stage.

The Chairman invited the Chairman of the Health and Wellbeing Scrutiny Panel to summarise the points and recommendations made by the Members of that Panel.

The Chairman of the Health and Wellbeing Scrutiny Panel noted that Members had overall expressed support for the scheme, with their central concerns relating to car parking, disability access, the presence of archaeological artefacts at the site, and the securing of a Letter of Intent from the NHS to occupy a suite within the Centre.

The Chairman (in her capacity as Chairman of the Business and Transformation Scrutiny Panel) noted that Members had considered the development of a full Transport Strategy and Travel Plan for the site to be exceedingly important, and that any agreement with the hospital regarding the provision of NHS services at the redeveloped Centre needed to be concluded at the earliest opportunity.

## **EMPLOYER'S AGENT PRESENTATION**

*Mr Denson and Mr Dando (Pick Everard)* delivered a presentation covering the following: the Employer's Agent Team members, roles and Leads; the principles of the RIBA Plan of Work; cost estimates for the project; summary of the programme; key project risks including Consequential Improvement costs, flood zoning, programme slippage and project affordability; the procurement process for the Principal Contractor; the benefits and risks associated with both the Official Journal of the European Union (OJEU) tender process and alternative OJEU compliant National Frameworks procurement models.

Mr Denson stated that publicly funded projects costing in excess of £4.2M had to use the OJEU process to ensure an open tender for the Principal Contractor, were Council to approve the scheme in March 2018, the project would move into Stage 3 of the RIBA Plan of Works. Stage 4 would formally invite contractors to tender for the Principal Contractor role, and those who chose to bid would need experience of swimming pool construction as such works required particular expertise to carry out. He noted most firms which secured Principal Contractor appointments did so through a National Frameworks method and that would provide the Council with confidence in the construction of the centre through the use of an experienced contractor.

The RIBA Plan of Works afforded a four week time period from the deadline for the receipt of tenders to be considered prior to the Council selecting its preferred Principal Contractor. Mr Denson noted that it would be advantageous to the delivery of the project for the Principal Contractor to be selected as early in the process as possible in order that they may begin to undertake ground work investigations with a view to mitigating against delays in the project programme as a result of, for example, finding archaeological artefacts.

At the current stage of the project it was expected that the redeveloped Sands Centre would open to the public in the summer of 2020, following which the Principal Contractor had a 1 year liability for defective works, and an 11 year period of liability for latent defects. Any defects identified in those periods would be addressed by the Principal Contractor at their cost. In conclusion, Mr Denson recommended that the Council give approval to Pick Everard to explore a National Frameworks approach to the procurement of the Principal Contractor, rather than the OJEU method.

In discussion the following observations and comments were made:

- A Member understood that the OJEU process for appointing a Principal Contractor may take a year to complete, she expressed concern that such a time frame had not been factored into the Plan of Works, and that were the OJEU method to be used, the process may lead to the project falling behind time.

In response Mr Denson acknowledged that the OJEU method was a risk to the project meeting its delivery timetable, he reiterated that the National Frameworks outlined in his presentation were OJEU compliant and he hoped that the Principal Contractor may be selected in tandem with the detailed design phase of the project through a Pre-Construction Services Agreement.

- What was the range of the financial value of projects covered by the Frameworks referred to in the presentation?

Mr Denson advised that the total value of the project was £19,466,765 excluding £655,000 allowed by the Council and Greenwich Leisure Limited for temporary facilities and VAT. The North West Construction Hub Framework covered projects costing up to £10M, and the Scape Group National Construction Frameworks comprised contractors delivering projects of the following ranges: £2M - £20M and £10M - £50M

A Member sought assurance that the Principal Contractor would appoint sub-contractors using the locally approved CHEST Framework.

Mr Denson explained that an OJEU compliant contractor was required to demonstrate a specified percentage of expenditure locally relating to the use of sub-contractors, and that Pick Everard as Employer's Agent would explore the matter with the Principal Contractor, however, the CHEST Framework may not be the method by which the sub-contractors were appointed.

The Member responded that she wished for any sub-contractors used in the construction of the scheme to be compliant with the CHEST Framework, and that apprentice training be provided by those companies.

Mr Denson stated that the Principal Contractor would be keen to only use reliable contractors as they would be financially liable for all works carried out at the site.

The Contracts and Community Services Manager explained that it was important for Members to clearly distinguish between works and defects issues, he asserted that the Council would appoint sub-contractors via the CHEST were financial thresholds to be exceeded.

- Would the requirement for the Principal Contractor to have experience of constructing swimming pool and leisure facilities make the tender process open to legal challenge by firms interested in the work who did not have such experience?

Mr Denson explained that the construction of leisure facilities and swimming pools in particular required specialist experience, and whilst he acknowledged that such a criteria may prevent smaller local firms for tendering for the role of Principal Contractor, it was anticipated that local firms would be contracted to construct particular areas of the scheme in line with the design brief and as specified by the Principal Contractor.



- Had a list of approved sub-contractors been identified?

The Contracts and Community Services Manager stated sub-contractors would be identified, once the Principal Contractor was confirmed.

- With reference to the risks and cost of the project as detailed in the report, a Member sought clarification as to the total cost of the project.

Mr Denson explained that the £19.46M figure quoted in the report was the total outturn figure for the scheme excluding V.A.T and the provision of temporary facilities during the construction phase of the project.

The Contracts and Community Services Manager added that the £19.46M anticipated cost of the project included £1.3M for Consequential Improvements required by Building Control, professional fees and a contingency fund allocation.

A Member asked whether the contingency made allowance for a delay to the project in the event of archaeological materials being found at the site.

Mr Denson responded that the project was in the very early stages and he undertook to ensure that the finding of archaeological materials be included in the project's Risk Register and that discussions would take place with the project designers and the Local Planning Authority in order that all matters relating to the issue were adequately addressed.

- Were there plans to include renewable energy sources in the scheme?

Mr Finlayson (Buro Happold) advised that renewable and low carbon technologies would be a key factor in the construction of the redeveloped Centre and consideration would be given to systems that would provide opportunities for payback for the Council. The Consequential Improvements required by Building Control indicated, as a guide, that 10% of the total build cost be used in making improvements to meet current standards, therefore combining the old and new parts of the Centre afforded the Council the scope to provide a building with improved energy performance.

- What governance arrangements were in place to manage and monitor the project?

The Deputy Chief Executive explained that, were the project to be approved by Council governance arrangements, including Officers and Members would then be developed and agreed by the Executive. Reportage to the Council's Scrutiny function would be managed through the relevant Panel's Work Programmes.

The Member responded that she felt Councillor involvement in the project was particularly important given the scale and cost of the project, and that the Scrutiny Panels should receive regular updates on the progress of the project in order that Members be kept abreast of developments.

- What arrangements were in place for those wishing to use the Sands Centre during the construction phase?

The Contracts and Community Services Manager advised that in essence the area to the left of the Hall in the current building was to be demolished which included the gym and bar and that a new, extended facility would be constructed in its place. The hall had a previously agreed programme of events occurring during the construction phase and would therefore remain open during the entire redevelopment works. It was intended that temporary, replacement facilities of those areas of the existing site would be provided for the duration of the construction phase of the project.

- How had the central area at the entrance been included in the design and had it added £5M to the project costs?

Mr Dunston noted that the central area known as “The Street” had been incorporated into the design for two main reasons: it provided an attractive entrance and congregational space for users of the facilities, and it acted as a foyer for the theatre. He noted that some cultural events in the Hall may attract up to 2,000 visitors and in order to manage their exiting of the building safely a large area was needed.

In terms of increased budgetary costs for the project, Mr Dunston asserted that was as a result of the proposed scheme being larger than previous proposals, however, he considered the budget for the project to be realistic.

- A Member commented that effective management of similar large scale construction projects in the private sector was attributed to the carrying out of robust meetings with the contractors delivering the projects, she sought assurance that the Council would look to employ a similar approach in the Sands Centre Redevelopment.

Mr Dando assured Members that, as Employer’s Agent he and his colleagues would ensure that the project was managed and delivered in the manner that the Council had set out in its requirements.

- What payment liabilities to Greenwich Leisure Limited would the Council incur were the project to fall behind schedule?

The Contracts and Community Services Manager acknowledged the Member’s concerns and confirmed that the risk of over-run was a significant risk to the project. Furthermore, he considered that risk gave strength to the rationale of identifying a suitable Principal Contractor at the earliest opportunity.

Mr Denson advised that regular programme review meetings would be held during the project to manage and mitigate against any issues which may cause slippage in the timetable. Pick Everard would take all necessary action to ensure that the project was completed within the agreed timetable.

The Chairman invited the Chairman of the Health and Wellbeing Scrutiny Panel to summarise the points and recommendations made by the Members of that Panel during their consideration of the presentation.

The Chairman of the Health and Wellbeing Scrutiny Panel noted that key issues for the Panel were: the use of apprentices in the delivery of the project; the securing of a Letter of Intent from the NHS Suite at the earliest opportunity and: that an OJEU compliant framework be employed in the tendering process for the appointment of Principal Contractor for the project

The Chairman (in her capacity as the Chairman of the Business and Transformation Scrutiny Panel summarised the key issues raised by that Panel was the need for the Council to ensure that the project remained within budget; in order to aid this the Panel felt that the plans for the redevelopment must be finalised prior to the commencement of works, and that Members be provided with regular reports being submitted to the relevant Scrutiny Panel(s) for consideration.

Members held a discussion on the purpose and effectiveness of operating a joint Panel meeting, and considered it important that the resolutions of the individual Panels be appropriately recorded to aid Members ongoing scrutiny of the project.

The Policy and Communications Manager explained that the joint meeting had been convened in order to allow for efficient feedback to the Executive for it to consider the issues raised by Members, as part of its decisions making process. He assured Members that individual resolutions would be appropriately attributed to the individual Panels.

*The meeting adjourned at 12:55pm and reconvened at 1:05pm*

## **SJSP.06/18          STANDING ORDERS**

It was noted that the meeting had been in progress for 3 hours and it was moved, seconded and RESOLVED that Council Procedure Rule 9, in relation to the duration of meetings be suspended in order that the meeting could continue over the time limit of 3 hours.

## **SJSP.07/18          SANDS CENTRE REDEVELOPMENT**

### **FINANCIAL IMPLICATIONS**

*The Deputy Chief Finance Officer* provided an overview of the financial implications of the project, noting that a level of borrowing would be required by the Council and that a number of illustrative examples of how that could be achieved were set out in paragraph 2.8 of the report.

The starting point for the Council's consideration of potential methods of funding the project had been the re-tendered Leisure Contract which, following the completion of the redeveloped site would move the Council to a zero subsidy position in relation to its Principal Leisure Operator. Over the lifetime of the new Leisure Contract the Council would realise budget savings through receipt of payments from Greenwich Leisure Limited.

The Council had an asset portfolio worth £158M and an existing debt of £15M, with an interest rate of 8.5% as a result of a previous stock issue, which equated to a gearing of 9.4%. The calculated level of borrowing to fund the scheme was £17.5M with an anticipated interest rate of 2.5% over a 25 year period; it was anticipated that the additional monies would be raised through external grant funding. Given that the stock issue was due to be re-financed, an option was to combine the borrowing for the scheme and the stock issue, the Deputy Chief Finance Officer noted that such a strategy may achieve a lower level of interest payment for the Council by reducing the level of interest payable on the stock issue. He emphasised that the exact level of interest accorded to the loan was dependent upon the time at which the loan was taken out.

The loan would be secured from the Public Works Loan Board who provided three types of loan repayment options: interest only, annuity, and equal instalment payment, the Deputy Chief Finance Officer noted that the scenarios for loan repayments detailed in the report were based on an equal instalment payment option; he cautioned Members that the examples therein were for illustrative purposes only. The Budget considerations to be submitted to Council for consideration and approval in February 2018 incorporated a borrowing for the project of £17.5M at an interest rate of 3.25% and with a Minimum Revenue Provision (MRP) of 3%.

The Deputy Chief Finance Officer advised that consideration needed to be given as to the best policy for Council to adopt with regard to the regulation of its MRP and whether a separate MRP strategy was needed for the project. The factors for Members to consider in relation to the Council undertaking borrowing to fund the project were set out on pages 23 and 24 of the report.

In discussion the following observations and comments were made:

- A number of Members sought further detail on the Council's plans for the existing James Street Pool site and Turkish Bath suite following the relocation of the swimming pool facilities.

The Deputy Chief Executive explained that the Council had undertaken work with Montagu Evans to identify whether there was any external interest in the site. No proposal for the premises had been worked up but in due course options would be developed and submitted to the Executive for consideration.

A Member responded that the matter of the Turkish Baths and James Street Pool site needed to be included on the Council's Risk Register and, when plans for their use had been worked up, should be submitted to Scrutiny for its consideration.

- Were there any caveats in the Leisure Contract which would allow the Principal Leisure Contractor to reduce their payments to the Council following the completion of the redeveloped site?

The Contracts and Community Services Manager advised that the payments between the Council and Greenwich Leisure Limited were enshrined in the Leisure Contract signed between the two bodies, he noted that caveats were included which would allow for lower receipts to the Council in the event of a smaller facility being constructed.

- Was it necessary for the Council to secure the finance prior to the redevelopment scheme being "locked –in"?

The Deputy Chief Finance Officer advised that locking in for the scheme prior to any approvals being given to proceed would not be prudent, however, once approvals were given the best time to lock-in borrowing would be considered.

Responding to a further question from a Member, the Deputy Chief Finance Officer explained that tranching the borrowing requirements for the project would allow for a degree of flexibility in terms of the Council's profiling of cash flows by borrowing amounts to deliver specific aspects of the project as and when they were required and would also give flexibility for repayment profiles.

Regarding its asset to debt gearing ratio, the Council was, in relation to peer authorities, typically above average with respect to its portfolio of assets and a low level of debt. The Deputy Chief Finance Officer advised that financing the project would not preclude any further capital developments progressing.

Members discussed the financing options and felt that the equal instalment payment route for financing the project was the prudent option for the Council to take, and that the Executive should pursue such a method of financing. A number of Members, whilst agreeing with that approach, considered making such a recommendation was premature, given the current stage of project development, and that to do so would fetter the Executive.

- Had the Council any plans to dispose of any of its assets to help fund the project?

The Deputy Chief Finance Officer responded that the sale of assets was managed through the on-going asset disposal programme and that items would be brought forward as part of the Capital Programme.

- Had funding for the project been secured from Sport England?

The Contracts and Community Services Manager advised that as Council had not yet approved the scheme, the funding was not able to be applied for. He further explained that Sport England

had a ring-fenced pot of money for projects in the Carlisle District of £2.5M, whilst a bid was required to access the funds, the Contracts and Community Services Manager was confident that the Council would receive an allocation.

- What was the anticipated lifespan of the NHS suite?

The Deputy Chief Executive advised that a time frame had not been identified as the hospital had not confirmed whether it intended to occupy the suite. He noted that a decision on the matter was needed soon, as were the Council to approve the project, designers would need to know how the space was to be utilised in order for the project to be taken forward. In the event that the hospital did wish to occupy the suite he undertook to secure Letter of Intent or similar document as surety to aid the Council's determination of the scheme.

In response to a further question from a Member, the Deputy Chief Executive advised that the inclusion of an NHS suite would not affect Greenwich Leisure Limited payments to the Council.

The Chairman requested that details of how the Council planned to use the suite, in the event that the NHS did not take it up be circulated to Members.

In summarising the discussion, the Chairman noted that Members were satisfied with the Council's position in relation to the financing of the project as set out in the report and that details regarding the options for the NHS Suite and the James Street site be circulated to Members in due course.

The Chairman thanked the Officers and Messrs Denson, Dando, Dunstan, Reed, Finlayson, Ker-Reid, and Rice for their presentation and contributions to the meeting.

RESOLVED – 1) That the Health and Wellbeing Scrutiny Panel recommend to the Executive:

- i) That an OJEU compliant Framework method be used in the process for the tendering of the Principal Contractor role;
- ii) That the Council seek to secure a Letter of Intent from the NHS regarding the provision of services from the redeveloped Sands Centre;
- iii) That details of alternative options for the proposed NHS Suite be circulated to the Panel, in the event that the hospital did not wish to proceed with the agreement.

2) That the Business and Transformation Scrutiny Panel recommend to the Executive:

- i) That a Transport Strategy and Travel Plan be secured as soon as possible;
- ii) That the use of apprentices be encouraged in the delivery of the project;
- iii) That plans for the James Street site and Turkish Bath complex be circulated to the Panel for its consideration when they became available;
- iv) That the Panel be provided with regular updates on the progress of the project.

3) That the Contracts and Community Services Manager circulate to Members of both Scrutiny Panel's confirmation of the Council's ownership of the land at the Sands Centre site.

4) That both Panels note report (CS.10/18) and submit the comments as detailed above to the Executive for their consideration.

(The meeting ended at 1.47pm)



## **BUSINESS AND TRANSFORMATION SCRUTINY PANEL**

**THURSDAY 15 FEBRUARY 2018 AT 2.00PM**

**PRESENT:** Councillor Mrs Riddle (Chairman), Councillors Allison (from 2.45pm), Birks, Mrs Bowman, Mallinson J, McNulty (as substitute for Councillor Mrs Glendinning), Mrs Mckerrell (as substitute for Councillor Robson).

**ALSO PRESENT:** Councillor Dr Tickner – Deputy Leader, and Finance, Governance and Resources Portfolio Holder

**OFFICERS:** Chief Finance Officer  
Corporate Director of Governance and Regulatory Services  
Strategic Asset Investment Services Manager  
Policy and Performance Officer

### **BTSP.10/18 APOLOGIES FOR ABSENCE**

Apologies for absence were submitted on behalf of Councillors Mrs Glendinning, Robson and Watson and the Town Clerk and Chief Executive.

### **BTSP.11/18 DECLARATIONS OF INTEREST**

Councillor Mrs Birks declared an interest in respect of agenda item A.5 – Capital Budget Overview and Monitoring report. The interest related to the fact that she had been employed by Riverside.

### **BTSP.12/18 PUBLIC AND PRESS**

**RESOLVED** - It was agreed that the items of business in Part A be dealt with in public and Part B be dealt with in private.

### **BTSP.13/18 MINUTES OF PREVIOUS MEETINGS**

**RESOLVED** – 1) To note that Council, on 9 January 2018, received and adopted the minutes of the meetings held on 26 October 2017 and 4 December 2017. The Minutes were signed by the Chairman (Minute Book Volume 44(4)).

2) That the minutes of the meeting held on 4 January 2018 and the minutes of the Joint Business and Transformation Scrutiny Panel and Health and Wellbeing Scrutiny Panel held on 29 January 2018 be agreed.

### **BTSP.14/18 CALL - IN OF DECISIONS**

There were no items which had been the subject of call-in.

### **BTSP.15/18 OVERVIEW REPORT AND WORK PROGRAMME**

The Chairman presented report OS.04/18 providing an overview of matters relating to the work of the Business and Transformation Scrutiny Panel.

The Notice of Executive Key Decisions had been published on 12 January 2018. KD.34/17 – Civic Centre Ground Floor Reinstatement fell within the remit of the Panel and would be considered at the March meeting.

The report included a table of the progress on resolutions from previous meetings, many of the actions had been completed and this would be reflected in the next report.

The Panel's Work Programme had been attached as appendix 1 to the report for the Panel's consideration.

The Chairman reported that the Community Asset Transfer Task and Finish Group had met on 13 February 2018. The proposed Policy was being consulted on before being reported back to the Executive for approval. The Strategic Asset Investment Services Manager was preparing a list of assets which may be suitable for disposal and a case would be tested.

The Chairman referred to the minutes of the Joint Business and Transformation and Health and Wellbeing Scrutiny Panel which had been considered by the Executive on 12 February. The Executive had provided a response to each of the resolutions and the Chairman thanked the Executive for their prompt responses.

RESOLVED – That the Overview Report incorporating the Work Programme and Key Decision items relevant to the Business and Transformation Scrutiny Panel (OS.04/18) be noted.

### **BTSP.16/18            QUARTER 3 PERFORMANCE REPORT**

The Finance, Governance and Resources Portfolio Holder presented the third quarter performance against the current Service Standards and a summary of the Carlisle Plan 2015-18 actions as defined in the 'plan on a page'. The new Service Standards and Key Performance Indicators (KPIs) were also included (PC.01/18).

Details of the standards were set out in section 1 and section 2 of the report contained the Council's delivery of the Carlisle Plan within the Panel's remit. The Portfolio Holder drew the Panel's attention to the summary of exceptions which showed that the KPI for sickness absence was below the target, this had been as a result of the recent outbreak of flu. He added that the quarterly sickness absence report which was submitted to the Panel would include more details of the changes.

In considering the Performance Report members raised the following comments and questions:

- Had any consideration been given to stretching the targets of the service standards that the Council consistently met?

The Portfolio Holder responded that the Council always tried to make improvements where possible and he clarified that the service standard targets were national targets. In response to a further question he agreed to circulate comparison data on service standard 10 – Average number of working days to process benefit claimants' changes of personal details.

- Did the target for the number of corporate complaints dealt with within 15 days include the whole process for a corporate complaint including any holding letter

The Portfolio Holder confirmed that the 15 days target was for the resolution of a corporate complaint.

A Member informed the Panel that an Appeals Panel had recently, as part of a complaint, considered the corporate complaints procedure and had asked that the process included transparent holding letters to ensure that the complainant was fully aware of what was happening with their complaint.

- The Panel asked that the discussion paper which had been presented to SMT in November 2017 regarding city centre redevelopment projects be circulated to them.

RESOLVED – 1) That the Quarter 3 Performance Report 2017/18 (PC.01/18) be welcomed.

2) That the Finance Governance and Resources Portfolio Holder circulate the following information to Panel Members:

- comparison data for previous years on service standard 10 – Average number of working days to process benefit claimants' changes of personal details.
- Discussion paper on the city centre redevelopment which had been presented to SMT in November 2017.

## **BTSP.17/18            REVENUE BUDGET OVERVIEW AND MONITORING REPORT: APRIL TO DECEMBER 2017**

The Chief Finance Officer submitted the Revenue Budget Overview and Monitoring Report for the period April to December 2017 (RD.43/17). She outlined the overall budgetary position and the monitoring and control of expenditure against budget allocations, together with the exercise of virement.

Details of the main variances in the Directorates' budgets; together with a subjective analysis of the summarised budgetary position as at December 2017 were provided at tables 3.1 and 3.4 to the report.

In terms of the forecast outturn position 2017/18, the report recorded that the Council's financial position was affected by a number of external factors including the general effect of local economic activity on the Council's income streams; fuel prices, energy costs and other inflationary issues; and the effects of the housing market and property prices, especially with regard to income from land charges, rents and building and development control.

Also set out within the report was an explanation of balance sheet management issues and action taken to write off bad debts.

The Executive had considered the matter at their meeting on 12 February 2018 (EX.14/18 refers) and resolved:

“That Executive:

1. Noted the budgetary performance position of the Council to December 2017;
2. Noted the potential year end commitments as detailed in paragraph 4;
3. Noted the action by the Chief Finance Officer to write-off bad debts as detailed in paragraph 6;
4. Noted the virements and release of reserves as set out in paragraph 2.1 and Appendix A.

In considering the report Members raised the following comments and questions:

- The Panel understood the ICT Strategy and the need for an up to date system but wanted more information on the finances for the project, they had concerns regarding the amount of overspend on the project.

The Chief Finance Officer responded that the next agenda item showed an underspend on the ICT project and there was a need for further work on the profiling of the project. She agreed to circulate more details regarding the financing of the project to Members.

- What would the revenue contribution to the Tennis Canopy Project be used for?



The Chief Finance Officer reported that the virement had been an officer decision taken by the Deputy Chief Executive and she agreed to circulate further details to the Panel.

- The Panel discussed the terms used for the virements and felt that permanent and temporary were not appropriate.

The Chief Finance Officer explained that the terms were accounting terms for non recurring and recurring virements, she agreed to change the term in future reports.

- Members asked for clarification with regard to the proposed use of the GLL Reserve.

The Chief Finance Officer reminded the Panel that the GLL Reserve had been established with the original leisure contract in case the service came back in house. The reserve would allow for the replacement of any equipment required in order to continue to run the service. She added that any use of the reserve would require approval from Council to release the monies.

The report showed an overspend against the Leisure Contract and Members asked for an explanation for the overspend and if it would be funded from the reserves.

The Panel discussed whether the reserve needed to be retained under the new Leisure Contract arrangements and whether it was necessary for it to be of the same value.

The Finance, Governance and Resources Portfolio Holder agreed to circulate a written response to the Panel.

- Were the bad debts due to Housing Benefit Overpayment paid back? Were they paid back to the Government or to the Council?

The Chief Finance Officer explained that the recovery of overpayments was dependent on the reason for the over payment, some overpayments may be reclaimed. She added that the City Council received a housing benefit admin grant which contributed towards the running of the section.

RESOLVED – 1) That the overall budgetary position for the period April to December 2017, as set out in the Revenue Overview and Monitoring Report (RD.43/17) be noted.

2) That the Chief Finance Officer circulate to the Panel Members further information on the following:

- ICT project finances including the overspend
- Details of the revenue contribution to the Tennis Canopy Project

3) That the Chief Finance Officer change the term 'Permanent / Temporary' to 'Recurring / Non recurring' with regard to virements.

4) That Finance, Governance and Resources Portfolio Holder provide a written response to the Panel regarding the overspend in the new Leisure Contract, if the GLL Reserve would be used to cover the overspend and whether the GLL Reserve would be required in the same amount going forward.

## **BTSP.18/18      CAPITAL BUDGET OVERVIEW AND MONITORING REPORT: APRIL TO DECEMBER 2017**

The Chief Finance Officer submitted report RD.44/17 providing an overview of the budgetary position of the City Council's capital programme for the period April to December 2017. She outlined for Members the overall budget position of the various Directorates and the financing of the 2017/18 Capital Programme, details of which were set out in the report.

Paragraph 3.3 recorded that an initial review of the 2017/18 capital programme had been undertaken and the Executive had been asked to recommend to Council the re-profiling of £1,100,000 from 2017/18 to 2018/19, further details of which were set out at Appendix A. The unspent balance remaining of the revised annual budget of £7,400,000 was £3,077,036 as at December 2017.

The Executive had considered the matter at their meeting on 12 February 2018 (EX.15/18 refers) and resolved:

“That the Executive:

1. Noted and had commented on the budgetary position and performance aspects of the capital programme for the period April to December 2017;
2. Noted adjustments to the 2017/18 capital programme as detailed in paragraph 2.1
3. Made recommendations to Council to approve reprofiling of £1,100,000 as detailed in paragraph 3.3 and Appendix A from 2017/18 into 2018/19.”

In considering the report Members raised the following comments and questions:

- A Member asked for further details regarding the expenditure against Waste Minimisation.

The Chief Finance Officer responded that the expenditure had been for new bins and recycling boxes. She explained that the expenditure was recorded as an asset at the time of purchase and not when it was used. She agreed to investigate the matter further and circulate details to the Panel.

- When entering into Section 106 agreements in regard to cycle paths, did the Council secure future maintenance funding?

The Chief Finance Officer responded that maintenance costs were subject to the agreement; however, the Council did strive to secure maintenance support in agreements.

- Did the emergency measures which had been carried out at the old Central Plaza Hotel building include the road closure?

The Corporate Director of Governance and Regulatory Services reminded the Panel that the building was not owned by the City Council. The Council had an obligation to secure the building and make it safe; the road closure was not part of the Council's obligations.

RESOLVED – 1) That the overall budgetary position for the period April to December 2017, as set out in the Capital Budget Overview and Monitoring report (RD.44/17), be noted.

2) That the Chief Finance Officer circulate further information on the waste minimisation expenditure.

## **BTSP.19/18            PUBLIC AND PRESS**

RESOLVED – That in accordance with Section 100A(4) of the Local Government Act 1972 the Public and Press were excluded from the meeting during consideration of the following item of business on the grounds that it involved the likely disclosure of exempt information as defined in the paragraph number (as indicated in brackets against the minute) of Part 3 of Schedule 12A of the 1972 Local Government Act.

The Strategic Asset Investment Services Manager presented an update on progress with implementation of the business plan for Kingstown Industrial Estate and Parkhouse Business Park.

The Strategic Asset Investment Services Manager reminded the Panel that Chancerygate had been appointed in October 2016 to manage Kingstown Industrial Estate and Parkhouse Business Park. One of their first tasks was to prepare a business plan to deliver the Council's objectives for the Estate as detailed in section 1 of the report.

Chancerygate prepared an annual Key Performance Indicator report which detailed progress in achieving the indicators and the first annual report had been attached as appendix 1 to the report. The Strategic Asset Investment Services Manager gave an overview of the key achievements and other Estate Management Issues as detailed within the report.

In response to a question the Strategic Asset Investment Services Manager detailed the process for third party determination of the rent reviews and the potential outcome.

The Panel discussed the proposals for the old HSBC site and how the development may affect the litter issues that Kingstown Industrial Estate had with existing fast food outlets. The Strategic Asset Investment Services Manager explained that Chancerygate were proactive in engaging with other occupiers around Kingstown Industrial Estate and it was hoped that they could discuss potential issues with the occupier.

**RESOLVED** – That the update on progress of the implementation of the business plan for Kingstown Industrial Estate and Parkhouse Business Park be noted (GD.12/18).

(The meeting ended at 3.12pm)



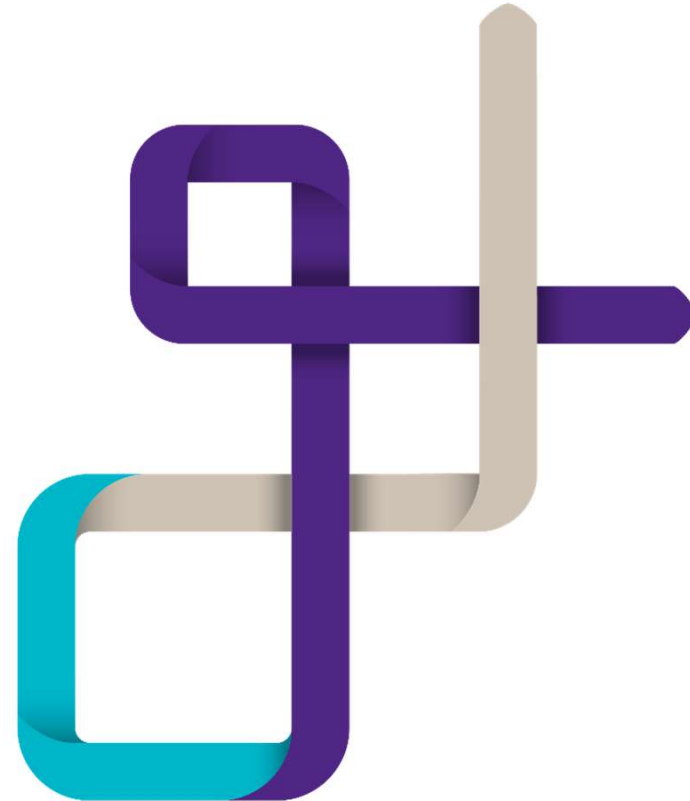


# External Audit Plan

*Year ending 31 March 2018*

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Carlisle City Council  
February 2018



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Introduction & headlines

## Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Carlisle City Council ('the Council') for those charged with governance.

## Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Carlisle City. We draw your attention to both of these documents on the [PSAA website](#).

## Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- financial statements (including the Annual Governance Statement) that have been prepared by management with the oversight of those charged with governance (the Audit Committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

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## Significant risks

Those risks requiring specific audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- management over-ride of controls;
- valuation of pension fund net liability; and
- valuation of property, plant and equipment (PPE) and Investment Property.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

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## Materiality

We have determined planning materiality to be £1.188m (Prior Year £1.141m), which equates to 1.75% of your forecast gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £59,000 (Prior Year £57,000).

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## Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has identified the following VFM significant risk:

- Significant service transformation projects and the Medium Term Financial Plan (MTFP).

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## Audit logistics

Our interim visit will take place in February 2018 and our final visit will take place in June/July 2018. Our key deliverables are this Audit Plan and our Audit Findings Report.

Our fee for the audit will be no less than £53,290 (Prior Year: £53,290) for the Council.

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## Independence

We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

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# Business understanding

## Key challenges

### Financial health

The Council continues to face a challenging environment in the short to medium-term with the Medium Term Financial Plan (MTFP) 2017/18 to 2021/22. It shows a savings gap of £2.274m for the 2 years of 2017/18 and 2018/19, which has been identified, with no new recurrent savings required beyond 2018/19. The Council has reviewed how it works and has a well established Transformation Programme in place. Asset reviews, reductions in discretionary activity, service reviews and re-organisations are on-going, including workforce rationalisation.

The viability of the MTFP is dependent on the Transformation Programme continuing to deliver savings.

### Major service contract tendering

The Council has recently re-let their leisure services contract and are currently reviewing the re-development options for the Sands Centre including the options for swimming provision. This is a significant project in terms of focus and cost, and links to the Council's priorities in the Carlisle Plan 2015-2018.

## Changes to financial reporting requirements

### Early closedown

Under the 2015 Accounts and Audit Regulations, local authorities are required to submit their draft authorised for issue accounts by 31 May 2018 to their auditors, which is one month ahead of the deadline for 2016/17.

The audited accounts along with the auditors opinion is required to be published by 31 July 2018. This is two months ahead of the deadlines that were in place for 2016/17.

This represents a significant change to the timetable. The Council performed a dry run of the above deadlines in 2016/17, with the positive outcome of achieving an early audit closure by the 31 July 2017. This achievement bodes well for the Council meeting the formal deadline in 2017/18, and the emphasis will be on keeping the momentum going and replicating this performance.

### Changes to the CIPFA 2017/18 Accounting Code

CIPFA has introduced other minor changes to the 2017/18 Code, which confirm the going concern basis for local authorities, and updates for leases, service concession arrangements and financial instruments.

## Our response

- We will consider your arrangements for managing and reporting your financial resources, as part of our work in reaching our Value for Money conclusion.
- We will keep you informed of changes to the Regulations and any associated changes to financial reporting or public inspection requirements for 2017/18 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2017/18 CIPFA Code, and the impact of impairment assessments and the adequacy of provisions in relation to essential work on high rise buildings.



# Significant risks identified

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration because they have a higher risk of material misstatement. Such risks often relate to significant non-routine transactions and judgemental matters. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>The revenue cycle includes fraudulent transactions</b>	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Carlisle City Council, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>Therefore, we do not consider this to be a significant risk for Carlisle City Council.</p>
<b>Management over-ride of controls</b>	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>Management over-ride of controls is a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• gain an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness</li> <li>• obtain a full listing of journal entries, identify and test unusual journal entries for appropriateness</li> <li>• evaluate the rationale for any changes in accounting policies or significant unusual transactions.</li> </ul>

# Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Valuation of property, plant and equipment, and Investment Property</b>	<p>The Council revalues its land and buildings and investment property on an annual basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings, and investment property, revaluations and impairments as a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• review management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>• give consideration to the competence, expertise and objectivity of any management experts used</li> <li>• discuss with the valuer the basis on which the valuation is carried out and challenge the key assumptions</li> <li>• review and challenge the information used by the valuer to ensure it is robust and consistent with our understanding</li> <li>• test revaluations made during the year to ensure they are input correctly into the Council's asset register</li> <li>• evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.</li> </ul>
<b>Valuation of pension fund net liability</b>	<p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement</li> <li>• evaluate the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out</li> <li>• undertake procedures to confirm the reasonableness of the actuarial assumptions made</li> <li>• check the consistency of the pension fund asset and liability position and disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul>

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2018.

# Reasonably possible risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgement, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR is lower than that for a significant risk, and they are not considered to be areas that are highly judgemental, or unusual in relation to the day to day activities of the business.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Employee remuneration</b>	<p>Payroll expenditure represents a significant percentage of the Council's operating expenses.</p> <p>As the payroll expenditure comes from a number of individual transactions and an interface with a number of different sub-systems there is a risk that payroll expenditure in the accounts could be understated.</p> <p>We therefore identified completeness of payroll expenses as a risk requiring particular audit attention.</p>	<p>We will</p> <ul style="list-style-type: none"> <li>• evaluate the Council's accounting policy for recognition of payroll expenditure for appropriateness</li> <li>• gain an understanding of the Council's system for accounting for payroll expenditure and evaluate the design of the associated controls</li> <li>• obtain the year-end payroll reconciliation and ensure amount in accounts can be reconciled to ledger and through to payroll reports. Investigate significant adjusting items</li> <li>• agree payroll related accruals (e.g. unpaid leave accrual) to supporting documents and review any estimates for reasonableness.</li> </ul>
<b>Operating expenses</b>	<p>Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.</p> <p>We identified completeness of non- pay expenses as a risk requiring particular audit attention:</p>	<p>We will</p> <ul style="list-style-type: none"> <li>• evaluate the Council's accounting policy for recognition of non-pay expenditure for appropriateness</li> <li>• gain an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls</li> <li>• obtain a listing of non-pay payments made in April, and sample test to ensure that transactions have been charged to the appropriate year.</li> </ul>

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# Other matters

## Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued and consistent with our knowledge of the Council.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under the Act and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2017/18 financial statements, consider and decide upon any objections received in relation to the 2017/18 financial statements
  - issue of a report in the public interest
  - making a written recommendation to the Council, copied to the Secretary of State.
- We certify completion of our audit.

## Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

## Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements. Appendix A summarises the key changes impacting the auditor's report for audits of financial statement for periods commencing on or after 17 June 2016.

# Materiality

## The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

## Materiality for planning purposes

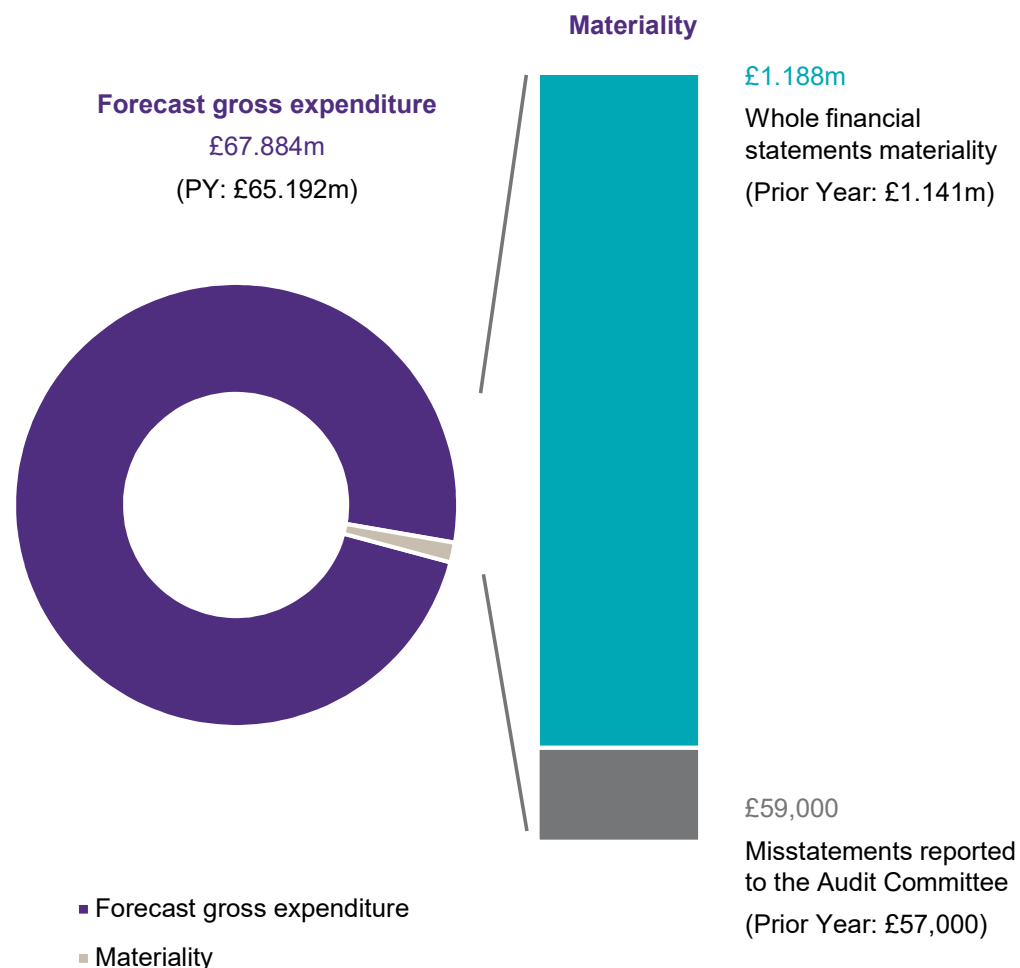
We propose to calculate financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. We have determined planning materiality (the financial statements materiality determined at the planning stage of the audit) to be £1.188m (Prior Year £1.141m), which equates to 1.75% of your forecast gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality

## Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £59,000 (Prior Year £57,000).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



# Value for Money arrangements

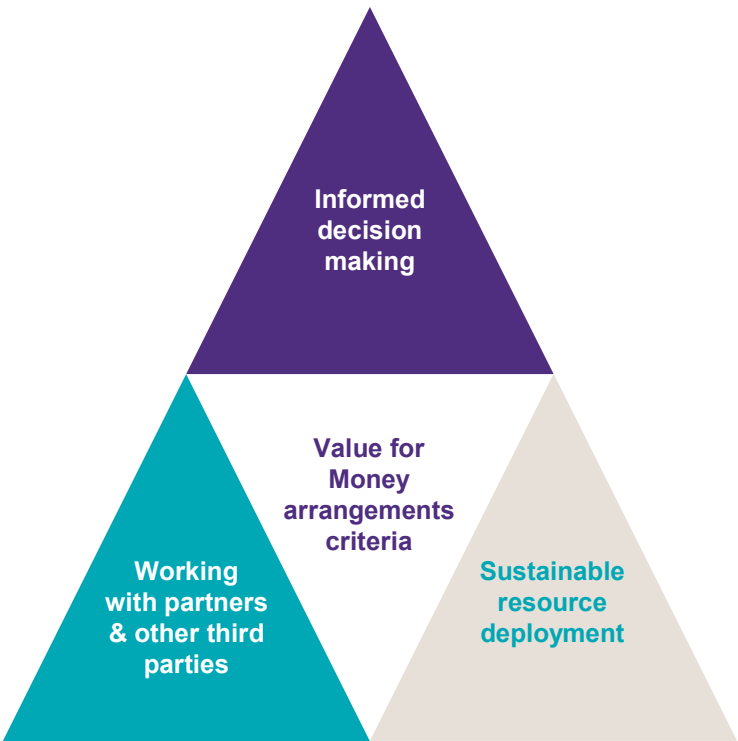
## Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

*“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”*

This is supported by three sub-criteria, as set out below:



## Significant VFM risks

Those risks requiring specific audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Council to deliver value for money.

### Medium Term Financial Plan (MTFP)

The Council's MTFP is predicated on delivering changes to the way in which services are delivered. The Council has identified proposals for reducing spending and increasing efficiency. The programme included a number of key projects, including internally reshaping the Council.

The Council continues to face a challenging environment in the short to medium term with MTFP 2017/18 to 2021/22 showing a savings gap of £2.274 million, all of which has been identified. The Council has reviewed how it works and has a well established Transformation Programme in place.

There are considerable uncertainties over various revenue streams in the medium term. As a result the Council has to apply a number of estimates and key judgements to compile the MTFP.

We will review the arrangements the Council has in place to compile the MTFP. This includes a review of how the Council is identifying, managing and monitoring financial information in order to regularly update the MTFP including the arrangements for reporting outcomes to Executive and Full Council.

# Setting Materiality – Materiality for Sensitive Items

## Identifying transactions requiring a separate materiality level

Alongside calculating an overall materiality level to inform our audit of the financial statements, auditing standards require auditors to determine separate lower materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole, could reasonably be expected to influence the economic decisions of users'.

We have determined that a separate materiality level should be adopted in the following areas:

**Related party transactions** - the Council conducts its business using public funds. The Related Party disclosures ensure that the Council discloses in full any transactions that have occurred with related parties. This ensures that the Council is open about who it does business with and counters any allegations or suspicion of nepotism on the part of management or those charged with governance.

**Disclosures of officers' remuneration and salary bandings in the notes to the financial statements** - due to public interest in these disclosures and the statutory requirement for them to be made.

## Determining materiality level for sensitive items

Materiality for the sensitive items has been calculated on a similar basis to that used for the final statements, i.e. a proportion of the total value of the disclosure. In our view errors in the disclosure below the materiality levels quoted would not impact on economics decisions taken by users of the financial statements. For both of the areas highlighted above, we will review the completeness of the disclosures in the draft financial statements based on our knowledge of the Council's affairs. We will also review the materiality levels proposed on receipt of the draft statements and alter these if this is considered necessary.

## Proposed Materiality Levels for Sensitive Items

Area of the Accounts	Proposed Materiality
Related Party Transactions	£4,000 (based on 1.75% of total related party transactions in the 2016/17 audited statements)
Senior Officer Remuneration	£9,000 (based on 1.75% of total senior officer remuneration in the 2016/17 audited statements)

# Audit logistics, team & audit fees



**Gareth Kelly, Engagement Lead**



**Angela Pieri, Audit Manager**



**Jamie Wright, Audit In-charge**

### Audit fees

The planned audit fees are no less than £53,290 (Prior Yea: £53,290) for the financial statements audit and £16,852 (Prior Year: £16,852) for grant certification. Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

In setting your fee, we have assumed that the scope of the audit, and the Council and its activities, do not significantly change.

### Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.



# Early close

## Meeting the early close timeframe

Bringing forward the statutory date for publication of audited local government accounts to 31 July this year, across the whole sector, is a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts is curtailed, while, as auditors we have a shorter period to complete our work and face an even more significant peak in our workload than previously.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits;
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May;
- seeking further efficiencies in the way we carry out our audits; and
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

## Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 12). Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

## Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff;
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit; and
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

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# Independence & non-audit services

## Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters. In this context, we disclose the following to you:

- One of the audit team has a family member who works as a team leader in the Revenues and Benefits department at the Council. This is not deemed to be a significant independence risk. To comply with independence standards and in the spirit of transparency, we are disclosing to you that this member of the audit team will not be involved with the Housing Benefits Subsidy certification work, nor with any other elements of the audit that relates to Housing Benefits. Instead, our work in these areas will be carried out by other audit staff.
- Commencing 1 November 2016, Grant Thornton UK LLP entered into a short-term tenancy lease for a small portion of the 7th floor of the Civic Centre, Carlisle. We have considered the ethical standards and any potential threats to our independence resulting from this arrangement. However, the nature of the lease arrangement, and the sums involved, are clearly insignificant to either party.

We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2016 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

## Non-audit services

No non-audit services were identified.

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# Appendices

- A. Revised ISAs
- B. Glossary

# Appendix A: Revised ISAs

Detailed below is a summary of the key changes impacting the auditor's report for audits of financial statement for periods commencing on or after 17 June 2016.

Section of the auditor's report	Description of the requirements
<b>Conclusions relating to going concern</b>	We will be required to conclude and report whether: <ul style="list-style-type: none"><li>• The directors use of the going concern basis of accounting is appropriate; and</li><li>• The directors have disclosed identified material uncertainties that may cast significant doubt about the Council's ability to continue as a going concern.</li></ul>
<b>Material uncertainty related to going concern</b>	We will need to include a brief description of the events or conditions identified that may cast significant doubt on the Council's ability to continue as a going concern when a material uncertainty has been identified and adequately disclosed in the financial statements. Going concern material uncertainties are no longer reported in an Emphasis of Matter section in our audit report.
<b>Other information</b>	We will be required to include a section on other information which includes: <ul style="list-style-type: none"><li>• Responsibilities of management and auditors regarding other information;</li><li>• A statement that the opinion on the financial statements does not cover the other information unless required by law or regulation; and</li><li>• Reporting inconsistencies or misstatements where identified</li></ul>
<b>Additional responsibilities for directors and the auditor</b>	We will be required to include the respective responsibilities for directors and us, as auditors, regarding going concern.
<b>Format of the report</b>	The opinion section appears first followed by the basis of opinion section.

# Appendix B: Glossary

Detailed below is a glossary of key terminology that is referred to within our Audit Plan

Term	Description
<b>International Standards on Auditing (ISA)</b>	International Standards on Auditing (ISA) are professional standards for the performance of financial audit of financial information.
<b>Local Audit and Accountability Act 2014</b>	Establishes arrangements for the audit and accountability of local public bodies.
<b>National Audit Office Code of Practice</b>	The Code sets out what local auditors are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act.
<b>Those charged with governance (TCWG)</b>	The persons with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity.
<b>Primary statements</b>	Provides the essential data required by stakeholders to assess the financial position.
<b>Comprehensive Income and Expenditure Account (CIES)</b>	Provides details of the income and expenditure for the financial year.
<b>Annual Governance Statement</b>	A statutory document which explains the processes and procedures in place to enable the council to carry out its functions effectively.
<b>Narrative Report</b>	The purpose of the Narrative Report is to offer interested parties an effective guide to the most significant matters reported in the accounts.
<b>Chartered Institute of Public Finance and Accountancy (CIPFA)</b>	CIPFA is the only professional accountancy body in the world exclusively dedicated to public finance. CIPFA is responsible for providing accounting guidance to Local Government bodies.
<b>CIPFA Code of Practice on Local Authority Accounting</b>	This is the document which sets out the accounting requirements for Local Government bodies. The Code is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Standards, except where these are inconsistent with specific statutory requirements.
<b>Public Sector Audit Appointments Ltd (PSAA)</b>	PSAA is responsible for appointing auditors to local government, police and local NHS bodies, for setting audit fees and for making arrangements for the certification of housing benefit subsidy claims.



# Audit Progress Report and Sector Update

Carlisle City Council  
Year ending 31 March 2018

March 2018

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# Introduction



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**This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.**

The paper also includes a summary of emerging national issues and developments that may be relevant to you as a local authority.

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications. Click on the Grant Thornton logo to be directed to the website [www.grant-thornton.co.uk](http://www.grant-thornton.co.uk).

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

# Progress at March 2018

## Financial Statements Audit

We have completed our planning for the 2017/18 financial statements audit, and our detailed Audit Plan is an agenda item at the 19 March 2018 Audit Committee. The plan sets out our proposed approach to the audit of the Council's 2017/18 financial statements.

We commenced our interim audit in January and February 2018. Our interim fieldwork visit includes:

- updated review of the Council's control environment;
- updated understanding of financial systems;
- review of Internal Audit reports on core financial systems;
- early work on emerging accounting issues; and
- early substantive testing.

The findings from our interim audit are summarised at pages 6 to 8.

The statutory deadline for the issue of the 2017/18 opinion is brought forward by two months to 31 July 2018. We are discussing our plan and timetable with officers.

The final accounts audit is due to begin on the 01 June 2018 with findings reported to you in the Audit Findings Report by the earlier deadline of 31 July 2018.

## Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

We have made our initial risk assessment to determine our approach in January 2018, and this is reported to you in our Audit Plan.

We will report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline of 31 July 2018.

## Other areas

### Certification of claims and returns

We are required to certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. This certification work for the 2017/18 claim will be concluded by 30 November 2018.

The results of the certification work are reported to you in our certification letter.

### Meetings

As part of the planning processes we have met with the Chief Executive, Deputy Chief Executive, Corporate Director of Governance and Regulatory Services, finance staff and Internal Audit. The meetings are part of our regular liaison to understand emerging developments, and to ensure the audit process is smooth, effective and to add value to your wider priorities.

# Audit Deliverables

2017/18 Deliverables	Planned Date	Status
<b>Accounts Audit Plan</b> We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2017/18 financial statements.	March 2018	Complete
<b>Interim Audit Findings</b> We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2018	Complete
<b>Audit Findings Report</b> The Audit Findings Report will be reported to the July Audit Committee.	July 2018	Not yet due
<b>Auditors Report</b> This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2018	Not yet due
<b>Annual Audit Letter</b> This letter communicates the key issues arising from our work.	August 2018	Not yet due
<b>Annual Certification Letter</b> This letter reports any matters arising from our certification work carried out under the PSAA contract.	December 2018	Not yet due

# Results of Interim Audit Work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusions and recommendations
Internal audit	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"><li>• communication and enforcement of integrity and ethical values;</li><li>• commitment to competence;</li><li>• participation by those charged with governance;</li><li>• management's philosophy and operating style;</li><li>• organisational structure;</li><li>• assignment of authority and responsibility; and</li><li>• human resource policies and practices.</li></ul>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p>

	Work performed	Conclusions and recommendations
<b>Review of information technology controls</b>	<p>Our information systems specialist performed a high level review of the general IT control environment, as part of the overall review of the internal controls system in 2016/17.</p> <p>The results of the work including a number of recommendations were reported to management and to the Audit Committee as part of our progress report from March 2017.</p> <p>Internal Audit is in the process of reviewing progress made against the recommendations, and we will liaise with the Internal Audit team to provide the evidence of progress against each of the recommendations.</p>	<p>Our work in this area is on-going and it is expected to be concluded in March 2018.</p>
<b>Walkthrough testing</b>	<p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>
<b>Journal entry controls</b>	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p>	<p>Review of the Council's journal entry policies and procedures have not identified any material weaknesses.</p> <p>As part of our final accounts audit we will undertake detailed testing on journal transactions by extracting 'unusual' entries for further review.</p>

	Work performed	Conclusions and recommendations
Early substantive testing	<p>We have undertaken early substantive testing during the interim visit, covering the nine month period of April 2017 to December 2017, in the following areas:</p> <ul style="list-style-type: none"> <li>• operating expenditure;</li> <li>• non-grant revenues; and</li> <li>• employee remuneration.</li> </ul>	<p>There have been no issues to report to you from our testing of the transactions during this period. We will complete the testing in these areas during our final accounts visit.</p>

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# Sector Update

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Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website.



# Public Sector Audit Appointments: Report on the results of auditors' work 2016/17

This is the third report on the results of auditors' work at local government bodies published by PSAA. It summarises the results of auditors' work at 497 principal bodies and 9,752 small bodies for 2016/17. The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors used their statutory reporting powers.

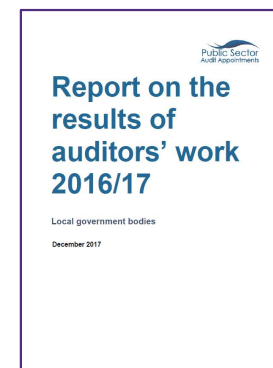
The timeliness and quality of financial reporting for 2016/17, as reported by auditors, remained broadly consistent with the previous year for both principal and small bodies. Compared with 2015/16, the number of principal bodies that received an unqualified audit opinion by 31 July showed an encouraging increase. 83 principal bodies (17 per cent) received an unqualified opinion on their accounts by the end of July compared with 49 (10 per cent) for 2015/16. These bodies appear to be well positioned to meet the earlier statutory accounts publication timetable that will apply for 2017/18 accounts.

Less positively, the proportion of principal bodies where the auditor was unable to issue the opinion by 30 September increased compared to 2015/16. Auditors at 92 per cent of councils (331 out of 357) were able to issue the opinion on the accounts by 30 September 2017, compared to 96 per cent for the previous year. This is a disappointing development in the context of the challenging new reporting timetable from 2017/18. All police bodies, 29 out of 30 fire and rescue authorities and all other local government bodies received their audit opinions by 30 September 2017.

The number of qualified conclusions on value for money arrangements has remained relatively constant at 7 per cent (30 councils, 2 fire and rescue authorities and 1 other local government body) compared to 8 per cent for 2015/16. The most common reasons for auditors issuing non-standard conclusions on the 2016/17 accounts were:

- the impact of issues identified in the reports of statutory inspectorates;
- corporate governance issues; and
- financial sustainability.

The latest results of auditors' work on the financial year to 31 March 2017 show a solid position for the majority of principal local government bodies. Generally, high standards of financial reporting are being maintained despite the financial and service delivery challenges currently facing local government.



# Changes to the prudential framework of capital finance

The Ministry of Housing Communities and Local Government has updated the Local Authority Investments Guidance and the Minimum Revenue following its publication of consultation responses on 2 February 2018.

A total of 213 consultation responses were received by the MHCLG by the 22 December 2017 deadline from across local government. Following consideration of the responses the Government has:

- made some technical changes to the Investments Guidance and MRP Guidance
- amended proposals relating to useful economic lives of assets
- implemented the Investments Guidance for 2018-19, but allowed flexibility on when the additional disclosure first need to be presented to full Council
- deferred implementation of MRP Guidance to 2019-20 apart from the guidance “Changing methods for calculating MRP”, which applies from 1 April 2018.

Key changes are noted below.

## Statutory Guidance on Local Authority Investments

**Transparency and democratic accountability** – the revised guidance retains the requirement for an Investment Strategy to be prepared at least annually and introduces some additional disclosures to improve transparency. However, as the changes to the CIPFA Prudential Code include a new requirement for local authorities to prepare a Capital Strategy, the revised guidance allows the matters required to be disclosed in the Investment Strategy to be included in the Capital Strategy.

**Principle of contribution** – the consultation sought views on the introduction of a new principle requiring local authorities to disclose the contribution that non-core investments make towards core functions. Authorities’ core objectives include ‘service delivery objectives and/or placemaking role.’ This clarification has been made to recognise the fact that local authorities have a key role in facilitating the long term regeneration and economic growth of their local areas and that they may want to hold long term investments to facilitate this.

**Introduction of a concept of proportionality** – the Government is concerned that some local authorities may become overly dependent on commercial income as a source of revenue for delivering statutory services. The consultation sought views on requiring local authorities to disclose their dependence on commercial income to deliver statutory services and the amount of borrowing that has been committed to generate that income. A majority of respondents supported the introduction of a concept of proportionality, recognising the importance that local authorities make decisions based on an understanding of the overall risk that they face.

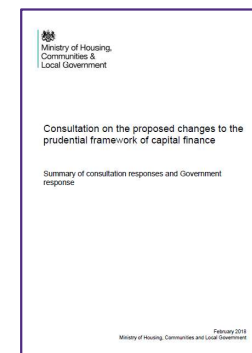
**Borrowing in advance of need** – by bringing non-financial investments (held primarily or partially to generate a profit) within the scope of the Investments Guidance, the consultation proposals made it clear that borrowing to fund acquisition of non-financial assets solely to generate a profit is not prudential. The Investment Guidance requires local authorities who have borrowed in advance of need solely to generate a profit to explain why they have chosen to disregard statutory guidance. It is also important to note that nothing in the Investment Guidance or the Prudential Code overrides statute, and local authorities will still need to consider whether any novel transaction is lawful by reference to legislation.

**Minimum Revenue Provision Guidance** – the consultation sought views on proposals to update the guidance relating to MRP to ensure local authorities are making prudent provision for the repayment of debt.

**Meaning of a charge to the revenue account** – the Government does not believe that crediting the revenue account is either prudent or within the spirit of the approach set out in the relevant Regulations. For this reason a charge to the account should not be a negative charge.

**Impact of changing methods of calculating MRP** – the Government does not expect any local authority to recalculate MRP charged in prior years due to the proposed changes in methodology.

**Introduction of a maximum economic life of assets** – the consultation sought views on setting a maximum useful economic life of 50 years for freehold land and 40 years for other assets. The MRP Guidance will set a maximum life of 50 years, but allow local authorities to exceed this where the related debt is PFI debt with a longer term than 50 years, or where a local authority has an opinion from an appropriately qualified person that an operational asset will deliver benefits for more than 50 years.



# CIPFA publications - The Prudential Code and Treasury Management Code

CIPFA has published an updated 'Prudential Code for Capital Finance in Local Authorities'. Key developments include the introduction of more contextual reporting through the requirement to produce a capital strategy along with streamlined indicators.

The framework established by the Prudential Code should support local strategic planning, local asset management planning and proper option appraisal. The objectives of the Prudential Code are to ensure, within this clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable.

Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003, in Scotland under Part 7 of the Local Government in Scotland Act 2003, and in Northern Ireland under Part 1 of the Local Government Finance Act (Northern Ireland) 2011.

Since the Prudential Code was last updated in 2011, the landscape for public service delivery has changed significantly following the sustained period of reduced public spending and the developing localism agenda. It reflects the increasing diversity in the sector and new structures, whilst providing for streamlined reporting and indicators to encourage better understanding of local circumstances and improve decision making.

The introduction of a capital strategy allows individual local authorities to give greater weight to local circumstances and explain their approach to borrowing and investment. The Code is available in hard copy and online.



CIPFA has also published an updated Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. The Code provides a framework for effective treasury management in public sector organisations.

The Code defines treasury management as follows:

The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

It is primarily designed for the use of local authorities (including police and crime commissioners and fire authorities), providers of social housing, higher and further education institutions, and the NHS. Local authorities in England, Scotland and Wales are required to 'have regard' to the Code.

Since the last edition of the TM Code was published in 2011, the landscape for public service delivery has changed significantly following the sustained period of reduced public spending and the developing localism agenda.

There are significant treasury management portfolios within the public services, for example, as at 31 March 2016, UK local authorities had outstanding borrowing of £88bn and investments of £32bn

.The Code is available in hard copy and online.

# Supply Chain Insights tool helps support supply chain assurance in public services

## Grant Thornton UK LLP has launched a new insights and benchmarking platform to support supply chain assurance and competitor intelligence in public services.

The Supply Chain Insights service is designed for use by financial directors and procurement professionals in the public sector, and market leaders in private sector suppliers to the public sector. It provides users with a detailed picture of contract value and spend with their supply chain members across the public sector. The analysis also provides a robust and granular view on the viability, sustainability, market position and coverage of their key suppliers and competitors.

The platform is built on aggregated data from 96 million invoices and covers £0.5 trillion of spending. The data is supplemented with financial standing data and indicators to give a fully rounded view. The service is supported by a dedicated team of analysts and is available to access directly as an on-line platform.

Phillip Woolley, Partner, Grant Thornton UK LLP, said:

"The fall-out from the recent failure of Carillion has highlighted the urgent need for robust and ongoing supply chain monitoring and assurance. Supply Chain Insights provides a clear picture of your suppliers' activities across the sector, allowing you to understand risks, capacity and track-record. We think it's an indispensable resource in today's supplier market."



### The tool enables you to immediately:

- access over 96 million transactions that are continually added to
- segment invoices by:
  - organisation and category
  - service provider
  - date at a monthly level
- benchmark your spend against your peers
- identify:
  - organisations buying similar services
  - differences in pricing
  - the leading supplier
- see how important each buyer is to a supplier
- benchmark public sector organisations' spend on a consistent basis
- see how much public sector organisations spend with different suppliers

Supply Chain Insights forms part of the Grant Thornton Public Sector Insight Studio portfolio of analytics platforms.

Click on Supply Chain Insights for more information.

## Supply Chain Insights

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# Cost Assurance

## Did you know....

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**40**

Number of Public Sector engagements to date

---

**£125m**

Annual spend analysed

---

**£3.55m**

Rebate opportunities identified

---

**£1.1m**

Fee income identified

---

**2.84%**

Error rate – rebates versus spend volume

---

**55%**

Of Public Sector engagements are Local Government

Our Cost Assurance service line provides Local Authorities with an independent and retrospective audit of their legacy telecommunications and utilities costs incurred during the past 6 years (as per the Statute of Limitation).

We find that there are repeat errors contained within a Suppliers' invoice arrangements – errors that aren't necessarily picked up by the end client. This is due to the fact that they tend to be contained in suppliers' billing systems 'at source' and are much further down the supply chain which the user won't necessarily have visibility of.

We are supported by a comprehensive library of legacy supplier pricing that has been collated since 2011. Our one aim is to ensure that the client has only paid for the services used during the period by:

- ensuring that bills presented by Suppliers' are in line with their contracts and relevant pricing mechanisms
- ensuring the client receives the Supplier refunds where errors have been identified by us
- ensuring consequential savings are identified and implemented immediately for the client

Our Cost Assurance work is based on a contingent-fee model and is supported by PSAA Ltd. Each of our Local Authority engagements include a fee cap to ensure governance and regulatory standards are maintained.

In summary, we are able to bring much needed financial benefit to the sector as well as providing insight into errors that may be prone to repeat offence by suppliers long after our work is concluded.

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# Links

## Grant Thornton website links

<https://www.grantthornton.co.uk/>  
<http://www.grantthornton.co.uk/industries/publicsector>  
<http://www.grantthornton.co.uk/en/insights/combined-authorities-signs-of-success/>  
<http://www.grantthornton.co.uk/en/insights/a-guide-to-setting-up-a-social-enterprise/>  
<http://www.grantthornton.co.uk/en/insights/commercial-healthcheck-in-local-authorities/>  
<http://www.cfoinsights.co.uk/>  
<http://supplychaininsights.grantthornton.co.uk/>

## PSAA website links

<https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

## MHCLG website links

<https://www.gov.uk/government/consultations/proposed-changes-to-the-prudential-framework-of-capital-finance>  
<https://www.gov.uk/government/publications/capital-finance-guidance-on-local-government-investments-second-edition>  
<https://www.gov.uk/government/publications/capital-finance-guidance-on-minimum-revenue-provision-third-edition>

## CIPFA website link

<http://www.cipfa.org/policy-and-guidance/publications/t/the-prudential-code-for-capital-finance-in-local-authorities-2017-edition-book>

## National Audit Office link

<https://www.nao.org.uk/report/the-adult-social-care-workforce-in-england/>





# Report to Audit Committee

Agenda  
Item:

**A.4**

Meeting Date: 19 March 2018  
Portfolio: Finance, Governance and Resources  
Key Decision: No  
Within Policy and Budget Framework: Yes  
Public / Private: Public

Title: **AUDIT COMMITTEE'S ANNUAL REPORT**  
Report of: Chair of Audit Committee.  
Report Number: RD51/17

## Purpose / Summary:

This report provides a summary of the work undertaken by the Audit Committee during 2017/18.

## Recommendations:

It is recommended that the Audit Committee note and accept this report for recommendation to Council.

## Tracking

Executive:	<b>Not applicable</b>
Overview and Scrutiny:	<b>Not applicable</b>
Council:	<b>12<sup>th</sup> April 2018</b>

**Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers: None**

## 1 **BACKGROUND**

In accordance with paragraph 3.3 of the Audit Committee's Rules of Governance - attached to this report for Members' information as **Appendix A** - the Chairman of the Audit Committee is required to present an Annual Report on the work of the Audit Committee to the full Council.

## 2. **PURPOSE OF THE REPORT**

- 2.1 This report summarises the work carried out by the Audit Committee during 2017/18. It demonstrates to Council and stakeholders the effectiveness of the Committee in maintaining the organisation's internal control environment and governance arrangements.
- 2.2 The Terms of Reference for the Audit Committee were reviewed at the start of the year with the required changes subsequently reported to and approved by full Council on 15<sup>th</sup> May as part of the Council's Scheme of Delegation for 2017/18.
- 2.3 **The Committee**
- 2.3.1 The Members of the Audit Committee for this municipal year are -

<b>Conservative</b>	<b>Labour</b>
Mrs Mallinson E	Ms Patrick (Chair)
Shepherd	Bowditch (Vice Chair)
Higgs	Mrs Birks
Bowman S (sub)	Sidgwick
Christian (sub)	Alcroft (sub)
Earp (sub)	Ms Williams (sub)
	Wilson (Sub)

- 2.3.2 This Report covers the meetings of the Audit Committee held on:

14<sup>th</sup> July 2017  
31<sup>st</sup> July 2017  
27<sup>th</sup> September 2017  
12<sup>th</sup> January 2018

Details of the agenda items covered at each meeting are given at **Appendix B**.

- 2.3.3 The External and Internal Auditors, the Portfolio Holder for Finance, Governance and Resources, the Chief Finance Officer and the Monitoring Officer are invited to all Committee meetings. In addition, Members met the External Auditors to discuss topical issues without officers being present at its January meeting. The Committee can seek attendance from any officer or Member of the Executive and has exercised this right on several occasions.
- 2.3.4 At each meeting the Committee receives, for information purposes, the minutes of the Business and Transformation Scrutiny panel.
- 2.3.5 Training is an essential element for an Audit Committee. The Committee receive annual training and have been updated on statutory accounting requirements and are alert to the possibility of areas in which their knowledge could be extended.
- 2.4 External Audit
- 2.4.1 The Audit Committee received and approved the external auditor's Annual Audit Plan. It commented on the fee rates and work programme consultation carried out by Grant Thornton based on fees set by Public Sector Audit Appointments Ltd, the independent company set up by the Local Government Association with delegated statutory functions to set audit fees and make arrangements for certain audits.
- 2.4.2 The Audit Committee also received the Annual Findings Report and the annual Grant Certification Report and monitored actions against the recommendations within these reports. A judgement was included in the Annual Governance Report indicating whether the Council has adequate arrangements to secure Value for Money in the use of resources. The Annual Audit Letter summarised the auditor's work for the year and opinion on the Council's financial statements and value for money arrangements.
- 2.4.3 At the pre-briefing session prior to the January meeting, members held a private briefing with the external auditors to discuss various topics without officers being present.
- 2.4.4 Finally, the external auditor also provided the Committee with informative updates on key areas of interest in Local Government which were well received by the Committee and which the Committee referred on to other groups who may find them useful, e.g. Executive or Council.

## 2.5 Internal Audit

- 2.5.1 The Committee has overseen the work undertaken by Internal Audit throughout the year, including the delivery of the Annual Audit Plan. The Internal Audit Service was brought back in house from 1 April 2017, and has been establishing new ways of working and building relationships with the Committee and Officers throughout the year.
- 2.5.2 Before the start of the year, the Committee approved the Internal Audit Plan which set out the individual audit review areas to be carried out. The Internal Audit Plan focused on a Risk Based approach to establishing which reviews to undertake and where resources should be focussed.
- 2.5.3 The Committee received quarterly update reports from Internal Audit highlighting performance against the plan as well as reports of completed reviews. Each report is supplemented by a verbal update on key areas of success or concern in each completed audit review from the Designated Head of Internal Audit and the Principal Auditor.
- 2.5.4 The Committee also received updates on the progress against Audit recommendations and monitors closely where these are not completed to a satisfactory level.
- 2.5.5 Up to the 12 January 2018, the Committee had received eleven final reports with the following assurance levels

<b>Assurance Level</b>	<b>Number of Final Reports</b>
Substantial	5
Reasonable	4
Partial	2
<b>Total</b>	<b>11</b>

- 2.5.6 The Committee concentrates its attention to high priority recommendations made in reports. Where a report carries a partial assurance level, the Committee usually receives a verbal update from the relevant Director or Service Manager to outline how the review is being dealt with and how the assurance can be improved. Where a partial assurance is given, the Internal Audit team will perform a formal follow up and report back to the Audit Committee within six months to outline how

recommendation have been implemented and whether the assurance level has increased.

- 2.5.7 The Committee have previously had concerns over the Records Management review and the progress being made in respect of policies and procedures around Records Management. During 2017/18, the Committee were able to receive the assurances from Internal Audit that significant progress had been made against the recommendations and that pending a final review to be undertaken early in 2018/19, this item need not be included again on the Annual Governance Statement as a key control weakness.
- 2.5.8 The Internal Audit team operate under the guidelines laid down by the Public Sector Internal Audit Standards and the Council also has an Audit Charter in place that is brought to the Committee for approval annually.
- 2.5.9 Internal Audit also provide assurance through an Annual Report that the Council's overall control environment is satisfactory and whether any key weaknesses should be addressed in the Annual Governance Statement. This report was received in July 2017 and highlighted no new areas of concern.

## 2.6 Accounts

- 2.6.1 The Committee considered the Council's accounts at its July meetings in both draft and Audited forms and was pleased that the Council's accounts had achieved an earlier closedown in advance of the new requirement for 2017/18. The Committee received the Audit Findings report at its meeting on 31 July 2017, where the External Auditors reported their intention to provide an unqualified opinion on the financial statements. Their key message was that the Council produced good quality financial statements that were free from material error and supported by comprehensive working papers.
- 2.6.2 Each year the Committee receives training from the Deputy Chief Finance Officer on the key issues in the Statement of Accounts and how to scrutinise and question what is presented. This training session is also complemented throughout the year by regular update reports outlining proposed accounting policies and updates on recommendations made in the previous Audit Findings report.
- 2.6.3 The External Auditor also reported alongside their Audit Findings that the Council has proper arrangements in place for securing Value for Money.

2.6.4 The Committee received the Annual Audit Letter at its September meeting which confirmed the audit conclusions given for 2016/17.

## 2.7 Corporate Governance

2.7.1 The Committee is responsible for ensuring the Council meets the requirements of the Code of Corporate Governance and the Good Governance Principles. The CIPFA/SOLACE document 'Delivering Good Governance in Local Government: Framework' was updated in 2016 and at its core was the principal that local government develops and shapes its own approach to governance.

2.7.2 The Committee considered a review of the Code of Corporate Governance at its September meeting to ensure it fits in with the revised Framework and reflects the current governance arrangements of the Council.

## 2.8 Treasury Management

2.8.1 The Audit Committee has responsibility for monitoring the Council's arrangements for Treasury Management and received reports for scrutiny on a quarterly basis, together with consultation on the proposed Treasury Management Strategy Statement.

2.8.2 The Committee take a keen interest in Treasury Management matters and question Officers around the security of the Council's investments and its approach to capital financing. Some members of the Committee attended training on Treasury Management in January 2018 provided by the Council's Treasury advisors, Link Asset Services to enhance their understanding of this complex area.

## 2.9 Risk Management Monitoring

2.9.1 The Committee has received regular updates on the risk management process and that the corporate risk registers are being looked at on a regular basis. It is not the Committee's duty to determine that risks are being adequately managed, more so that the process of monitoring risks is being adhered to and that regular updates on risk management are given to the Executive and Scrutiny Panels where appropriate.

## 2.10 Fraud Prevention and Whistleblowing

2.10.1 The promotion of fraud awareness is important to Audit Committee Members who encourage officers in their efforts. Any incidences of fraud are reported to the Committee through the Internal Audit quarterly reports.

## 2.10 Effectiveness of the Audit Committee

2.10.1 The Committee undertook an effectiveness review in 2016 and received an update in July 2017 outlining the proposed steps to be taken next to enhance the Committee's effectiveness with a training plan to be developed and rolled out with pre-meeting time to be used to deliver quick training sessions to members.

## 3 CONSULTATION

None

## 4 CONCLUSION AND RECOMMENDATION

4.1 Audit Committees are a key component of an authority's governance framework. The purpose of an audit committee is to provide to those charged with governance (The Council), independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance process. By overseeing internal and external audit, it makes an important contribution to ensuring that effective assurance arrangements are in place.

4.2 The Audit Committee's annual report provides the Council with information to show how the Audit Committee has fulfilled its role during the year and provides independent assurance to the Council on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance process.

4.3 **It is recommended that the Audit Committee note and accept this report.**

## 5 CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

5.1 The Audit Committee ensures that an effective governance framework is in place to underpin the delivery of Carlisle City's Priorities.

**Contact Officer:**

**Steven Tickner**

**Ext: 7280**

**Appendix A**

**Rules of Governance**

**Appendix B**

**Audit Committee Agendas**

**attached to report:**

**Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers:**

- **None**

**CORPORATE IMPLICATIONS/RISKS:**

**Economic Development – not applicable**

**Governance & Regulatory Services – not applicable**

**Local Environment – not applicable**

**Corporate Support & Resources – not applicable**



**RULES OF GOVERNANCE**

**1. STATEMENT OF PURPOSE**

- 1.1 The purpose of an Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.

**2. TERMS OF REFERENCE**

**2.1 Audit Activity**

To consider the Designated Head of Internal Audit's annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the Council's corporate governance arrangements.

To consider summaries of specific internal audit reports as requested.

To consider reports dealing with the management and performance of the providers of internal audit services.

To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale.

To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.

To consider specific reports as agreed with the external auditor.

To comment on the scope and depth of external audit work and to ensure it gives value for money.

To liaise with Public Sector Audit Appointments Ltd over the appointment of the Council's external auditor.

To commission work from internal and external audit.

**2.2 Regulatory Framework**

To maintain an overview of the Council's Constitution in respect of Contract Procedure Rules, Financial Regulations and relevant Codes of Conduct.

To review any issue referred to it by the Town Clerk and Chief Executive or a Chief Officer, or any Council body.

To monitor the effective development and operation of risk management and corporate governance in the Council.

To monitor Council policies on "Raising Concerns at Work" and the anti-fraud and anti-corruption strategy and the Council's complaints process.

To oversee the production of and approve the authority's Annual Governance Statement.

To consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

To consider the Council's compliance with its own and other relevant published standards and controls.

### **2.3 Accounts**

To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

To approve the Annual Statement of Accounts, income and expenditure and balance sheet.

To consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.

To approve the Letter of Representation

## **3. ACCOUNTABILITY**

3.1 The Audit Committee shall be a stand-alone Committee of the Council. All Audit Committee members shall act in the interests of the Council and not on behalf of any political party, constituency, ward, or interest group.

3.2 The Chair of the Audit Committee shall be appointed by the Committee. The Chair and the Committee shall ensure that relevant issues are promptly brought to the attention of the Executive, Overview and Scrutiny Panels and Regulatory Committees or the full Council.

3.3 The Chair of the Audit Committee shall present an Annual Report on the work of the Audit Committee to the full Council.

## **4. AUTHORITY AND ACCESS**

4.1 The Audit Committee has a right to request relevant information from appropriate or relevant Members and Officers of the Council.

4.2 The Audit Committee shall not be able to transact the powers, functions and duties reserved to the full Council, the Executive, Overview and Scrutiny Panels and other Regulatory Committees.

4.3 The Audit Committee shall have access to in-house financial, legal and any other professional advice necessary to carry out its functions.

4.4 The Chair of the Audit Committee and the external and internal auditor shall meet as necessary and the Council's Designated Head of Internal Audit shall provide necessary services and support and assistance to the Audit Committee.

4.5 Any Member, Officer or member of the public who has any concern covered by the Terms of Reference of the Audit Committee may raise the matter with the Chair of the Committee who shall obtain, if necessary, relevant advice from the Council's Monitoring Officer or the Section 151, Chief Finance Officer before taking any action with regard to the same.

## **5. MEMBERSHIP**

- 5.1 Audit Committee members shall be appointed by the Council and consist of 7 members in accordance with the rules governing political balance. No member of the Executive and no chair of the Overview and Scrutiny Panels shall be eligible to be a member of the Audit Committee.
- 5.2 The Audit Committee shall be provided with administrative support by the Governance & Regulatory Services Directorate and reports/decisions of the Audit Committee shall be recorded and published on CMIS in the usual way. Financial Services shall provide technical support to the Committee when required. As the decisions of the Audit Committee shall not be of an executive nature, the decisions shall not be the subject of a request for call-in. If any Member is concerned about any decision of the Audit Committee, s/he should raise the matter with the Chair of the Audit Committee, the Monitoring Officer and/or the Section 151 Finance Officer and/or ask an oral question of the Chair of the Audit Committee at the Council meeting in accordance with the relevant Council Procedure Rules.

## **6. ATTENDANCE**

- 6.1 The Audit Committee shall meet on a regular basis as provided for in paragraph 7 below. Officers and others may attend all or part of the meeting at the invitation of the Committee. Attendees may include:

- The Leader or Deputy Leader
- The Portfolio Holder for Finance
- Portfolio Holders
- Town Clerk and Chief Executive
- Chief Finance Officer (Section 151)
- Corporate Director of Governance and Regulatory Services (Monitoring Officer)
- Designated Head of Internal Audit
- Other Chief Officers and Managers, as required

- 6.2 Subject to the relevant meeting complying with the Access to Information paragraphs for the exclusion of members of the public, the Audit Committee shall at least annually meet:
- (i) in private, with the external and internal auditors together; and/or
  - (ii) in private, with the external auditor.

## **7. MEETINGS**

- 7.1 The Audit Committee shall meet at least four times a year in accordance with the schedule of meetings agreed by the Council. The External Auditor or the Designated Head of Internal Audit may request a meeting if they consider it necessary and other special meetings may be called in accordance with the Council's Procedure Rules.
- 7.2 The members of the Audit Committee shall commit to receiving appropriate training and development necessary to fulfil their roles.

## **8. QUORUM**

- 8.1 The quorum for any meeting shall be one quarter of the elected members of the Committee, subject to there being not less than two elected members present at any time.

## **9. WORK PROFILE OF THE AUDIT COMMITTEE**

- 9.1 In furtherance of the Terms of Reference and not otherwise, the Audit Committee is likely to receive and advise upon the following areas of work:
- Whether there is an appropriate culture of risk management and related control throughout the Council;
  - the Annual Governance Statement;
  - the annual Statement of Accounts, including changes in and compliance with accounting policies and practices, major judgemental areas and significant adjustments resulting from the audit;
  - significant changes required to Financial Procedure Rules and the Contracts Procedure Rules.
  - the framework and processes for risk assessment, analysis and management within the Council;
  - the effective co-ordination between internal and external audit;
  - the budget needed to resource effective internal and external audit and other responsibilities of the Audit Committee; and
  - generally, on how the Audit Committee could add value to the work and operation of the Council.

9.2 External Audit and Inspection Agencies

- To note the fees and terms of engagement of the external auditor.
- To review the planned programme of work with the external auditor.
- To consider the annual statutory audit and to advise the Executive on any response to any audit management letters, reports and investigations, including Value for Money studies and other inspection reports.
- To review whether agreed external or internal audit or inspection recommendations have been implemented by the Executive as timetabled.
- To discuss with the external auditor any problems, reservations or issues arising from the interim or final audit or other investigations.
- To review the external auditor's independence and objectivity and annually appraise the Executive on the effectiveness and value for money of the external audit service.

9.3 Corporate Governance Framework

- To review and advise the Executive on the embedding and maintenance of an effective system of corporate governance including internal control and risk management.

- To give an assurance to the Council that there is a sufficient and systematic review of the corporate governance, internal control and risk management arrangements within the Council.
- To review the Annual Governance Statement and make appropriate recommendations to the Council, the Executive, the Overview and Scrutiny Panels and Regulatory Committees.
- To ensure that any significant weaknesses identified are remedied.
- To commission, if necessary, any relevant investigations into matters of particular concern relating to internal control.
- To ensure that the impact of any alleged or fraudulent activity on the Council's framework of internal control is reviewed and, where necessary, to recommend changes to strengthen the control framework.
- To receive reports relating to those aspects of whistle blowing or alleged or actual fraudulent activity which relate to the Terms of Reference of the Audit Committee.

#### 9.4 Internal Audit

To review and make recommendations to the Executive regarding:

- The effectiveness of internal audit;
- the internal audit function to ensure it is adequately resourced;
- the internal audit strategy, annual plan and to monitor delivery of the plan;
- any internal audit protocols and policies;
- significant audit findings, together with the response from managers to these reports;
- any difficulties encountered by internal audit including any restrictions on the scope of activities or access to required information;
- agreed internal audit recommendations to ensure they are implemented by management as timetabled; and
- the annual report from the Designated Head of Internal Audit.

#### 9.5 Other

- To consider and make recommendations to the Executive on:
- the selection and terms of appointment of other appropriate advisors and consultants;
- governance issues relating to the operation of the Audit Committee, and
- the proportionality, independence, and appropriateness of any of the Council's policies relating to any audit or governance matters;
- such other matters of an audit, financial or governance nature as fall within the terms of reference of the Committee or as may be referred by the Council.

**Audit Committee Agenda's**

**14<sup>th</sup> July 2017**

- A2. External Audit Update Report 2016/17
- A3. Audit Fee Letter 2017/18
- A4. Annual Governance Statement 2016/17
- A5. Statement of Accounts 2016/17
- A6. Treasury Management Outturn 2016/17
- A7. Internal Audit Progress Report Q4 2016/17
- A8. Internal Audit Annual Report 2016/17
- A9. Internal Audit Progress Report Q1 2017/18
- A10. Effectiveness Review of the Audit Committee
- A11. Corporate Risk Management
- B1. Implementation of Risk Based Verification

**31<sup>st</sup> July 2017**

- A1. External Audit Findings for Carlisle City Council 2016/17
- A2. Statement of Accounts 2016/17
- A3. Letter of Representation 2016/17

**27<sup>th</sup> September 2017**

- A2. Annual Audit Letter 2016/17
- A3. Code of Corporate Governance and Good Governance Principles
- A4. Internal Audit Progress Report Q2 2017/18
- A5. Treasury Management: April to June 2017

**12<sup>th</sup> January 2018**

- A2. External Audit Progress Report and Sector Update
- A3. 2016/17 Annual Certification Letter
- A4. Final Accounts Process 2017/18
- A5. Internal Audit Progress Report Q3 2017/18
- A6. Draft Treasury Management Strategy Statement, Investment Strategy and MRP Strategy 2018/19
- A7. Treasury Management: July to September 2017/18

## Report to Audit Committee

Agenda  
Item:

**A.5**

Meeting Date: 19 March 2018  
Portfolio: Finance, Governance and Resources  
Key Decision: No  
Within Policy and Budget Framework: Yes  
Public

Title: Internal Audit Plan 2018/19  
Report of: Chief Finance Officer  
Report Number: RD50/17

### Purpose / Summary:

Internal Audit is required, under the mandatory Public Sector Internal Audit Standards (PSIAS), to prepare an annual risk based audit plan for approval by the Audit Committee.

### Recommendations:

Members are requested to:

- Approve the 2018/19 Audit Plan which is attached at Appendices A - C.
- Approve the Internal Audit Charter for 2018/19 attached at Appendix D

### Tracking

Audit Committee	19 March 2018
Scrutiny Panel:	Not applicable
Council:	Not applicable

## 1.0 **BACKGROUND**

- 1.1 The Chartered Institute of Internal Audit defines internal auditing as *“an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. Internal audit helps the Council to achieve its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.”*
- 1.2 The Accounts and Audit Regulations 2015 require the Council to undertake “an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.
- 1.3 The PSIAS affirm the need for annual risk based audit plans to be developed in order that the ‘Head of Internal Audit’ can form an annual opinion on the Council’s systems of risk management, governance and internal control.
- 1.4 This Internal Audit Plan has been prepared in line with a risk-based planning methodology and consultation with the Council’s Senior Management Team to identify the areas where it is considered that Internal Audit can add the greatest value through provision of independent assurance. The Plan is attached at **Appendices A to C**.

## 2.0 **INTERNAL AUDIT SERVICE DELIVERY**

- 2.1 The PSIAS require that the Internal Audit Plan sets out a high level statement of how the Internal Audit Service will be delivered and developed in accordance with the internal audit charter and how it links to the organisational objectives and priorities.
- 2.2 It is a requirement of the PSIAS that the Council has in place an Audit Charter. The Charter, which is attached as **Appendix D**, sets out the arrangements for the delivery of the Internal Audit service. Changes have been made to the Charter for 2018/19 following initial feedback from CIPFA as part of the January 2018 preliminary readiness review (part of the External Quality Assessment).

## 3.0 **ROLES OF MANAGEMENT AND OF INTERNAL AUDIT**

- 3.1 It is the role of management to establish effective systems of governance, risk management and internal controls in order to:
  - safeguard the Council’s resources and prevent fraud;
  - ensure the completeness and reliability of records;
  - monitor adherence to laws, regulations, policies and procedures;
  - promote operational efficiency demonstrate the achievement of value for money; and
  - manage risk.
- 3.2 It is the role of Internal Audit to provide independent assurance to senior management and the Audit Committee that the Council has implemented adequate and effective procedures in relation to these responsibilities.



- 3.3 In order to safeguard its independence, Internal Audit does not have any operational responsibilities and is not responsible for any of the decision making, policy setting or monitoring of compliance within the Council.

#### **4.0 INTERNAL AUDIT RESOURCES**

- 4.1 It is proposed that there will be 508 direct days of Internal Audit time in 2018/19. This compares to 464 direct days included in the revised internal audit plan for 2017/18. The increase relates to the team now running at full establishment (in addition, 50 audit days from the previous year were required to complete work carried forward from the former shared service arrangements).
- 4.2 The number of days planned for risk-based reviews is unchanged. However additional time has been allocated to the following areas:
- 10 days advice/consultancy included to provide audit consultation (hot assurance) on the implementation of a new e-purchasing system.
  - 15 days for planned VFM reviews
  - An estimated 15 days on IT Audit (To be procured from a third party IT audit specialist)
  - It should also be noted that from 2018/19 Internal Audit intend to review records management as a standard part of all audit reviews.
- 4.3 This level of coverage is considered sufficient to provide an opinion on the systems of governance, risk and internal control in line with the PSIAS and in order to support the preparation of the Annual Governance Statement. It is therefore crucial that the Council facilitates internal audit to undertake its work effectively and in line with timescales for Audit Committee.
- 4.4 The PSIAS also reflect the requirement for internal audit plans to be flexible in order to respond to new and emerging risks to the organisation. Some capacity is therefore built into the Plan to allow Internal Audit to respond to such issues. However, should this contingency be exhausted during the year, the approved Plan may need to be revised. In this event, revisions would be considered and agreed by the Chief Finance Officer and reported to the Audit Committee, including the need for any additional audit resources if appropriate. Any request for significant consulting activity by Internal Audit would be approved by the Audit Committee in line with the requirements of the Public Sector Internal Audit Standards.

#### **5.0 CATEGORIES OF INTERNAL AUDIT WORK**

- 5.1 **Corporate Reviews** – these are reviews which are strategic in nature or which cut across the entire Council. These reviews are designed to provide assurance that the Council has effective governance and risk management arrangements to mitigate strategic risks.
- 5.2 **Directorate Risk-Based Audit Reviews** – these reviews have been identified in consultation with senior management and following reviews of the Annual Governance Statement Action Plan and Corporate Risk Register. These reviews are spread across service areas following a risk assessment to ensure that Internal Audit resources are targeted at the areas where the greatest benefit will be achieved.

- 5.3 **Financial System Reviews** – a three-year programme is in place which ensures that each main financial system is reviewed in depth at least once every three years. Management also has a responsibility to ensure that all financial systems continue to operate effectively each year and has asked Internal Audit to confirm with relevant managers that basic controls continue to operate. This will involve completing internal control questionnaires with relevant managers and providing these to the S151 officer for information.
- 5.4 **Governance System Reviews** – a provision is included for an annual update and review of the Council's compliance with the local code of corporate governance.
- 5.5 **Follow Up Audits** – a provision for follow up work is included in the Plan to ensure that all audit recommendations are followed up line with the agreed follow up approach outlined at 5.11.
- 5.6 **Counter Fraud** – the Plan includes a provision for counter fraud work, including reactive work should irregularities occur requiring Internal Audit to advise management on their investigations.
- 5.7 **Advice and guidance** – capacity has been built into the plan for advice and guidance to all services across the Council as well as contingency to respond to emerging risks. This includes time specifically allocated for the implementation of a new e-purchasing system.
- 5.8 **Contingency** – small allocation of time to respond to emerging risks and unplanned work. This might include requests to audit grant claims for example.
- 5.9 **VFM & Efficiency Reviews** – additional days will be included in the plan for undertaking Value for Money and Efficiency Reviews.
- 5.10 A summary of the number of days allocated to each category of audit work is shown below.

Category	Days Allocated
Corporate Reviews	40
Directorate Risk Based Audit Reviews	205
Financial System Reviews	67
Governance System Reviews incl. Local Code of Corporate Governance and Good Governance Principles	5
Follow Up Audits	33
Counter Fraud incl. policy review	20
Advice and Guidance	20
Contingency	31
VFM & Efficiency Reviews	15
IT Audit	15
Audit Committees, incl. Effectiveness Reviews	15
Planning/Management	42
<b>TOTAL</b>	<b>508</b>

## **5.11 Audit Follow Up Arrangements:**

- 5.11.1 It is a requirement of the PSIAS that the Head of Internal Audit maintains a system to follow up the implementation of agreed actions from internal audit work. Internal Audit will formally follow up the implementation of agreed actions arising from audits that result in partial or limited assurance.
- 5.11.2 Follow up will be undertaken approximately six months after the issue of the final audit report or in line with the latest agreed timescales for implementation. Where appropriate a revised audit opinion will be issued and reported to the Audit Committee.
- 5.11.3 Where a follow up is due, but management advise that all actions have not been fully implemented, the follow up will be deferred for a maximum of a month to allow actions to be fully implemented. Where the follow up does not allow for a revised audit opinion, the Corporate Director will be informed and requested to continue to monitor the implementation within the directorate. A summary report will be provided to Audit Committee. Internal audit will write to the Corporate Director after a further six months to gain assurance that the remaining actions have been implemented.
- 5.11.4 Where possible, follow ups will be undertaken in the same year as the original audit in order that revised assurance can be incorporated within the annual report and opinion.
- 5.11.5 Internal Audit will also maintain a schedule of all outstanding audit recommendations and obtain assurances from responsible officers that agreed actions have been implemented.

## **6.0 PERFORMANCE STANDARDS**

- 6.1 As the Council will have its own internal audit service, performance information will continue to be reported to the Audit Committee in 2018/19. Regular liaison meetings with the S151 Officer will also continue to be held to discuss ongoing issues.

## **7.0 CONSULTATION**

- 7.1 Members of the Senior Management Team (SMT) have individually considered their respective areas of the Audit Plan and SMT considered the Draft Audit Plan at its meeting on 27<sup>th</sup> February 2018.

## **8.0 CONCLUSION AND REASONS FOR RECOMMENDATIONS**

- 8.1 The Draft Audit Plan has been prepared in line with expected practice; Internal Audit is required, under the mandatory Public Sector Internal Audit Standards (PSIAS), to prepare an annual risk based audit plan for review and approval by SMT and the Audit Committee.

## **9.0 CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES**

- 9.1 Internal Audit supports the delivery of the Council Priorities as set out in the Council Plan by providing independent assurance over the arrangements in place across the Council to deliver priorities and objectives.

**Contact Officer: Steven Tickner**

**Tel: 817280**

**Appendices  
attached to report: Appendices A – C - 2018/19 Draft Audit Plan  
Appendix D – Internal Audit Charter**

**Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers:**

- **None**

### **CORPORATE IMPLICATIONS/RISKS:**

**Community Services** – not applicable

**Economic Development** – not applicable

**Governance & Regulatory Services** – not applicable

**Corporate Support and Resources** – not applicable

## Appendix A - AUDIT PLAN 2018/19 - CATEGORIES OF WORK

Category	Category	Description	Days Allocated	Days Allocated 17/18 (For Info)
A	Corporate Reviews	Reviews that are strategic in nature or which cut across the entire Council. These reviews are designed to provide assurance that the Council has effective governance and risk management arrangements to mitigate strategic risks	40	40
B / C / D / E	Directorate Risk Based Audit Reviews (Corp Supp / Economic Development / Community / Governance)	Reviews that have been identified in consultation with senior management and following reviews of the Annual Governance Statement Action Plan and Corporate Risk Register. These reviews are spread across service areas following a risk assessment to ensure that internal audit resources are targeted at the areas where the greatest benefit will be achieved.	205	207
F	Financial System Reviews	A three-year programme is in place which ensures that each main financial system is reviewed in depth at least once every three years. Management also has a responsibility to ensure that all financial systems continue to operate effectively each year and has asked internal audit to confirm with relevant managers that basic controls continue to operate. This will involve completing internal control questionnaires with relevant managers and providing these to the S 151 officer for information.	67	80
G	Governance System Reviews incl. Local Code of Corporate Governance and Good Governance Principles	Provision is included for annual review of compliance with CIPFA's Good Governance Principles (which feeds into the Annual Governance Statement). Audit work includes ensuring principles and policy is up to date and requesting updates from responsible managers.	5	0
H	Follow Up Audits	Provision for follow up work is included in the Plan to ensure that any audits with less than reasonable assurance are formally followed up and that all outstanding audit recommendations have been implemented.	33	55
J	Counter Fraud incl. policy review	Plan includes provision for counter fraud work. Capacity is also built into the Plan for reactive work should irregularities occur requiring Internal Audit to advise management on their investigations	20	30
K	Advice and Guidance	Capacity is built into the plan for advice and guidance to all services across the Council as well as contingency to respond to emerging risks. This includes planned advice work for the implementation of new systems.	20	12
L	Contingency	Allocation of time to respond to emerging risks and unplanned work (including 2017/18 carry forward, or additional time required on individual assignments). This might include requests to audit grant claims for example.	31	0
M	VFM & Efficiency Reviews	Planned reviews that focus on use of resources to ensure value for money is achieved.	15	0
N	IT Audit	Specialist IT Audit work to be sourced from third party	15	0
X	Audit Committees, incl. Effectiveness Reviews	Allocation of time for preparing reports for Audit Committee and attending briefings and meetings	15	20
Y	Planning/Management	Allocation of time for audit planning, reviewing and preparing audit manual, departmental development and Principal Auditor attendance at Operational Risk Management	42	20
TOTAL			508	464

Appendix B - AUDIT PLAN 2018/19 - AUDIT ASSIGNMENTS

Category	Audit Area	Proposed Scope	Risk Score						Code	Days
			Financial Risks	Political and Reputational Risks	Other Risks (risk register, previous audit work etc.).	Years since last audit review	Last Audit Assurance Level	Total	Code	Days
Corporate Reviews	Information Governance	Assurance statement of proposed actions to be provided at start of financial year. Progress against this statement to be carried out later in the year and include general governance arrangements in place (records management to be included as standard item in all audit reviews where relevant)	5	5	5	2	4	21	A1801	20
	Smarter Service Delivery	Implementation of smarter service delivery arrangements including ensuring changes to systems are properly embedded throughout the Council and suitable ongoing risk management arrangements are in place.	5	3	5	5	3	21	A1802	20
Corporate Support & Resources	Allowances, Travel and Subsistence - Employees	Review of process for submission and approval of travel and subsistence claims including assurances to prevent fraudulent claims (2 investigations performed 2017/18)	2	3	4	5	3	17	B1801	20
	Safeguarding including DBS	Carry forward from 2017/18. Review safeguarding arrangements in place involving working with vulnerable adults, including ensuring relevant staff have regular DBS checks.	1	4	2	1	3	11	B1803	15
	Use of Casuals / Interim / Agency Workers	Review use of agency staff to ensure appropriate financial management and controls in place. Ensure arrangements for casual staff are in line with employment legislation	4	4	4	4	3	19	B1804	20
	Mobile Devices	Requested by Audit Committee. Review of security measures in place for mobile devices (i.e. any hardware used outside of Carlisle City Council premises)	3	3	2	2	4	14	B1805	15
Economic Development	Project Management within Economic Development	Review governance arrangements in place within the Directorate to ensure appropriate monitoring of projects.	2	3	5	5	3	18	C1801	10
	Heritage Cities Initiative	Review of the governance and monitoring of specific project.	4	3	3	5	3	18	C1802	10
Community Services	Leisure Management Contract Management	Contract management arrangements in place.	5	5	3	5	3	21	D1801	20
	Sands Centre Redevelopment	Brief overview of governance arrangements in place to ensure authority has right checks and controls prior to full implementation of project.	5	5	4	5	3	22	D1802	5
	Garage incl. Driver checks	Carry forward from 2017/18. Review of controls in place within Garage, including adherence to Health and Safety, as well as reviewing monitoring of driver checks for all CCC staff.	3	3	3	1	3	13	D1803	20
	Refuse Collection	Combined review of processes in place to ensure suitable risk management and monitoring in place.	4	5	3	4	2	18	D1804	20
Governance & Regulatory Services	Recycling		4	5	4	5	3	21		
	Strategic asset management	Review of contract management arrangements.	5	4	5	4	2	20	E1801	10
	Homelessness Services	General review of governance, risk management and processes in place for department.	5	4	4	5	3	21	E1802	20
	Noise, Air, Water Pollution & Contaminated Land	General review of governance, risk management and processes in place for department.	3	4	3	5	3	18	E1803	20
Main Financial Systems	Internal Control Questionnaires - Non Audited Systems	Annual questionnaires issued to ensure adequate controls in place for all main financial systems not subject to audit in the previous year.							F1801	2
	Creditors (including cheque control)	Review of controls in place for payment of creditor invoices (part of triennial programme of main financial systems).							F1802	20
	Main Accounting System & Budget Monitoring	Review of controls in place for financial monitoring (part of triennial programme of main financial systems). Include review of budget setting process to ensure sustainable and realistic budget setting in							F1803	25
	MTFP / Budget Setting	Review of controls in place for processing collection of Council Tax (part of triennial programme of main financial systems)	5	4	5	5	3	22		
	Council Tax								F1804	20
Governance	Good Governance Principles	Annual update CIPFA's good governance principles, including co-ordinating update of governance processes from responsible managers.							G1801	5
Follow Ups	Contingency / Routine Follow Up of Audit Recommendations	Follow up review of implementation of all audit recommendations (including 10 day contingency for additional partial audits that could be issued in first 2 quarters of 2018/19)							H1800	18
	Records Management	Follow up of implementation of recommendations from 2017/18 audit report.							H1801	5
	Corporate Charge Card	Follow up of implementation of recommendations from 2017/18 audit report.							H1802	3
	Old Fire Station	Follow up of implementation of recommendations from 2017/18 audit report.							H1803	7
Counter Fraud	Contingency	Contingency for performing fraud investigations. If not required in the year time will be spent on implementing counter-fraud measures and performing data analysis to identify suspected fraud.							J1800	20
Advice & Guidance	Contingency	Contingency for audit advice requested throughout the year.							K1800	10
	E Purchasing - New System Implementation (Consultancy)	Audit advice and guidance on internal controls required for implementation of new system (ongoing through 2018/19)	5	4	4	5	3	21	K1801	10
Contingency	Contingency	General contingency for additional audit work identified within the financial year (e.g. grant claims)							L1800	32
VFM & Efficiency Reviews	Revenues and Benefits Shared Service	A review of the VFM arrangements of the revenues and benefits shared service arrangements for IT provision.							M1801	10
	Mobile Phone Contracts	A review of the VFM arrangements for the provision of mobile phone contracts (to include as part of the review of mobile devices).							M1802	5
IT Audit	Contingency	Audit areas to cover to be agreed with ICT once preferred provider identified.							N1800	15
Audit Committee	Audit Committees - Preparing reports, briefings, attending committee etc.	Contingency for time spent preparing reports for and attending Audit Committee.							X1800	10
	Effectiveness Review	Time spent on External Quality Assessment (scheduled for April 2018)							X1801	5
Planning and Management	General Team Management	Principal Auditor time managing and administrating team performance (including team meetings, one to ones, appraisals). 2 hours per week.							Y1801	12
	Team Admin	Auditor time performing administrative tasks (team meetings, timesheets, appraisals). 1 hour per week.							Y1802	10
	Annual review and set up of new documentation and monitoring	Updating audit manual, including template documents and monitoring systems.							Y1803	5
	Department Improvement (TBD)	Time spent reviewing the way Internal Audit deliver work (exact approach to be determined post EQA)							Y1804	5
	Planning (2019/20)	Time spent preparing plan for 2019/20							Y1805	5
	Risk Management Sub Group	Principal Auditor attendance at Risk Management sub-group.							Y1806	5
TOTAL PRODUCTIVE DAYS										509
Admin Codes		Annual Leave							Z1801	70
		Bank Holidays							Z1802	19
		Sickness							Z1803	28
		Training							Z1804	15
TOTAL DAYS										641

## Appendix C - AUDIT RESOURCES 2018/19 - AVAILABLE AUDIT DAYS

	Gross Days	Gross Holidays	Gross Bank Holidays	Gross Sickness	Gross Training	Total Net Productive Days
Principal Auditor (1 FTE)	260	25	8	5	5	217
Auditor (0.81 FTE)	210	27	6	20	5	152
Auditor (0.6 FTE)	156	19	5	3	5	125
<b>Total (In-house)</b>	<b>626</b>	<b>70</b>	<b>19</b>	<b>28</b>	<b>15</b>	<b>494</b>
IT Audit Days (Bought In)	15					15
<b>Total</b>	<b>641</b>					<b>509</b>



# INTERNAL AUDIT CHARTER

## 1. Introduction

- 1.1 This Charter describes the purpose, authority, responsibilities and objectives of internal audit at Carlisle City Council. It establishes Internal Audit's position within Carlisle City Council and the nature of the Deputy Chief Finance Officer's (Designated Head of Internal Audit) functional reporting relationships with the Audit Committee.
- 1.2 The Charter also provides for Internal Audit's rights of access to records, personnel and physical properties relevant to audit engagements.
- 1.3 The Council's Internal Audit Service is required to conform to the mandatory Public Sector Internal Audit Standards (PSIAS). These standards comprise a Definition of Internal Auditing, a Code of Ethics, the Seven Principles of Public Life, and the Standards by which internal audit work must be conducted. Any instances of non-conformance with the PSIAS must be reported to the Audit Committee and significant deviations must be considered for inclusion within Annual Governance Statement and may impact on the external auditor's value for money conclusion.
- 1.4 An Audit Charter is one of the key requirements of the PSIAS. As such, failure to approve an Audit Charter may be considered to be a significant deviation from the requirements of the Standards.
- 1.5 The Charter must be presented to the Council's senior management and final approval of the Audit Charter rests with the Audit Committee. This will be done alongside the approval of the annual audit plan.
- 1.6 The PSIAS uses the terms 'board' and 'senior management' and require that the Audit Charter defines these terms for the purpose of the internal audit activity. For the Council, senior management refers to the Senior Management Team and the 'board' is the Audit Committee, which is charged with responsibility for governance.

## 2. The Mission of Internal Audit

- 2.1 To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

## 3. Purpose

- 3.1. Carlisle City Council's Internal Audit Service has adopted the Definition of Internal Auditing from the PSIAS. The definition explains the purpose of the internal audit activity:

*Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.*



- 3.2. The CIPFA Local Government Advisory Note (LGAN) further explains that the Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements (collectively known as the control environment). Internal audit plays a vital part in advising the Council that these arrangements are in place, effective, and operating properly. The mandatory annual internal audit report and opinion informs the Council's annual governance statement (AGS), both emphasises and reflects the importance of this aspect of internal audit's work, and provides assurance to the Audit Committee that an effective internal control framework is in place. Senior Management's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the Council's objectives.
- 3.3 Internal audit is described by the PSIAS as a key component of good governance within the public sector. When properly resourced, positioned and targeted, internal auditors act as invaluable eyes and ears for Senior Management and the Audit Committee inside the Council, giving an unbiased and objective view on what's happening in the organisation.
- 3.4 Internal Audit's core purpose is to provide Senior Management and Elected Members with independent, objective assurance that the Council has adequate and effective systems of risk management, internal control and governance.
- 3.5 By undertaking an annual risk assessment for each department or business area within the Council, and using this to prepare an annual risk-based audit plan, Internal Audit is able to target resources at the areas identified as highest risk to the Council. This then allows Internal Audit to give an annual overall opinion on the Council's systems of risk management, internal control and governance.
- 3.6 Internal Audit supports the Chief Finance Officer (Section 151 Officer) to discharge their responsibilities under section 151 of the Local Government Act 1972, the Accounts and Audit Regulations 2015, and the CIPFA Statement on the Role of the Chief Financial Officer in Local Government. This Statement places on the Chief Financial Officer, the responsibility for ensuring that the authority has put in place effective arrangements for internal audit of the control environment and systems of internal control as required by professional standards.
- 3.7 Internal Audit supports the Head of Paid Service (Chief Executive) in providing high level assurances relating to the Council's Governance arrangements. Internal Audit also supports the Monitoring Officer (Corporate Director of Governance & Regulatory Services) in discharging his / her responsibilities for maintaining high standards of governance, conduct, and ethical behaviour.

#### **4 Core Principles for the Professional Practice of Internal Auditing**

- 4.1 The Core Principles, taken as whole, articulate internal audit's effectiveness. For an internal audit function to be considered effective, all Principles should be present and operating effectively. The designated Head of Internal Audit Service is responsible for ensuring that internal auditors, as well as the internal audit activity, demonstrate achievement of the Core Principles.

#### 4.2 The Core Principles are: -

- a. Demonstrates integrity
- b. Demonstrates competence and due professional care
- c. Is objective and free from undue influence (independent)
- d. Aligns with the strategies, objectives, and risks of the organisation
- e. Is appropriately positioned and adequately resourced
- f. Demonstrates quality and continuous improvement
- g. Communicates effectively
- h. Provides risk-based assurance
- i. Is insightful, proactive, and future-focused
- j. Promotes organisational improvement.

### 5 The Role of Internal Audit

- 5.1 Internal Audit is an independent, objective assurance and consulting service designed to add value and improve the Council's operations. Internal Audit helps the Council to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The 'three lines of defence' diagram attached illustrates how Internal Audit supports the governance framework and provides a line of defence in ensuring the Council is adequately managing their risks.
- 5.2 The PSIAS defines consulting services as follows: "Advisory and client related service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training."
- 5.3 Internal Audit operates as an 'independent' in-house team at the Council, though the team will be seeking to buy-in additional specialist IT audit services from a third-party supplier.
- 5.4 The services provided by Internal Audit are designed to assist each of the Council's departments to continually improve the effectiveness of their respective risk management, control and governance frameworks, and processes and to allow an independent, annual opinion to be provided on the adequacy and effectiveness of these arrangements.
- 5.5 Internal Audit activities in support of this include:
  - Planning and undertaking an annual programme of risk-based internal audit reviews focusing on risk management, internal control and governance;
  - Review of arrangements for preventing, detecting and dealing with fraud and corruption;
  - Review of overall arrangements for risk management and corporate governance;
  - Review of grant funded expenditure where assurance is required by funding bodies or where risks are considered to be high;
  - Provision of advice on risk and control related matters;
  - Consultancy services which may include hot assurance on projects or service and system development;

- Investigation of suspected fraud or irregularity or provision of advice and support to management in undertaking an investigation; and
- Advice on strengthening controls following such an incident.

## **6 Authority, Responsibility and Objectives**

### Authority

- 6.1 This charter provides the authority for Internal Audit's right of access to all activities, premises, records, personnel, cash and stores as deemed necessary to undertake agreed internal audit assignments. In approving this charter, Senior Management and Members of the Audit Committee have approved this right of access and therefore the responsibility of all officers to comply with any reasonable request from members of the Internal Audit Service.
- 6.2 This charter delegates to the designated Head of Internal Audit, the responsibility to undertake an annual risk assessment for each department in consultation with the Council's management, and from this, prepare a risk-based plan of audit work for approval by the Audit Committee.
- 6.3 Internal audit shall have the authority to undertake audit work as necessary within agreed resources so as to achieve audit objectives. This will include determining the scope of individual assignments, selecting areas, and transactions for testing and determining appropriate key contacts for interview during audit assignments.
- 6.4 The charter establishes that the designated Head of Internal Audit or nominated deputy has free and unfettered access to the Audit Committee and has the right to request a meeting in private with the Chair of the Audit Committee should it become necessary.

### Responsibilities and Objectives

- 6.5 Internal audit's primary objective is to undertake an annual programme of internal audit work that allows an annual opinion to be provided on the overall systems of risk management, internal control, and governance for the Council.
- 6.6 The designated Head of Internal Audit and their staff have responsibility for the following areas:

### ***Planning***

- Develop an annual internal audit plan using a risk based methodology, based on at least an annual assessment of risk and incorporating risks and concerns identified by senior management;
- Submit the annual audit plan to senior management (SMT) and to Audit Committee for approval; and
- Review agreed audit plans in light of new and emerging risks and report any necessary amendments to agreed plans to Audit Committee.

### ***Implementation***

- Deliver the approved annual programme of internal audit work and report the outcomes in full to senior management (as agreed at the scoping stage of each engagement) and in summary to the Audit Committee. Where locally agreed, internal audit reports may also be reported in full to the Audit Committee;

- Assist, as required, in the investigation of significant suspected fraudulent activities within the Council and report the outcomes to senior management (S151 Officer, Monitoring Officer and other relevant Corporate Directors); and
- Monitor implementation of agreed audit recommendations through follow up process and report the outcomes to Senior Management and the Audit Committee.

### ***Reporting***

- Any significant issues arising during audit fieldwork will be discussed with management as they are identified;
- Draft audit reports will be produced on a timely basis following all audit reviews and these will be discussed with management prior to finalising, to ensure the factual accuracy of the report and incorporate management responses;
- Quarterly progress reports will be prepared and discussed with management before being reported formally to the Audit Committee;
- Internal audit has a responsibility to report to the Audit Committee any areas where it is considered that management have accepted a level of risk that may be unacceptable to the Council; and
- Internal audit has a duty to bring to the attention of the Audit Committee where the designated Head of Internal Audit, or his/her nominated deputy, believes that the level of agreed resources will impact adversely on the provision of the annual audit opinion.

### ***Relationships with other Inspectorates***

- Internal Audit will maintain effective relationships with other providers of assurance and external inspectorates in order to avoid duplication of effort and enable Internal Audit, where appropriate, to place reliance on the work of other providers.

### **Non-Audit / management responsibilities**

- 6.7 In order for Internal Audit to maintain its independence and thereby provide an independent and objective opinion, there are a number of areas that internal audit is not responsible for:
- Internal Audit does not have any operational responsibilities;
  - Internal Audit does not have any part in decision making within the Council or for authorising transactions; and
  - Internal Audit is not responsible for implementing its recommendations or for ensuring that these are implemented (though implementation of audit recommendations will be monitored and reported to the Audit Committee on a regular basis).
- 6.8 The presence of internal audit does not in any way detract from management's responsibilities for maintaining effective systems of governance, risk management and internal control.
- 6.9 Internal audit's role is to provide senior management and the Audit Committee with assurance that the management have established procedures that allow them to prevent or detect fraud or error, and to respond appropriately should this occur. Internal audit does not have any responsibilities for preventing or detecting fraud or error, this is the responsibility of the Council's managers.

- 6.10 It is the responsibility of the Council's managers to maintain adequate systems of internal control and to review their systems to ensure that controls continue to operate effectively.
- 6.11 The role of Internal Audit and the Council's managers is summarised in the diagram attached (Third Line of Defence).

## **7 Scope of Internal Audit Work**

- 7.1 The scope of Internal Audit work covers the entire systems of risk management, internal control, and governance across the Council. This allows Internal Audit to provide assurance that appropriate arrangements are in place to ensure that:
- the Council's risks are being appropriately identified, assessed and managed;
  - information is accurate, reliable and timely;
  - employees' actions are in compliance with expected codes of conduct, policies, laws and procedures;
  - resources are utilised efficiently and assets are secure;
  - the Council's plans, priorities and objectives are being achieved, and
  - Legal and regulatory requirements are being met.

## **8 Position and Reporting Lines for Internal Audit**

- 8.1 Internal Audit reports operationally to the Section 151 Officer / Chief Finance Officer within the Council. Functional reporting is to the Audit Committee.
- 8.2 On a day to day, basis Internal Audit will report the outcomes of its work to the senior officer responsible for the area under review. Progress and performance of Internal Audit will be monitored by the Section 151 Officer, who is charged with ensuring the Council has put in place effective arrangements for internal audit of the control environment and systems of internal control as required by professional standards.
- 8.3 Internal Audit reports the outcomes of its work to the Audit Committee on a quarterly basis. This includes as a minimum, a progress report summarising the outcomes of Internal Audit engagements as well as the performance of Internal Audit against the approved plan of work.
- 8.4 On an annual basis, Internal Audit will prepare and present to the Audit Committee, an annual report containing:
- the overall opinion of the designated Head of Internal Audit;
  - a summary of the work undertaken to support the opinion, and
  - a statement of conformance with the Public Sector Internal Audit Standards.
- 8.5 Should significant matters arise in relation to the work of Internal Audit, these will be escalated through the management hierarchy and to the Chair of the Audit Committee as appropriate.
- 8.6 Where major changes are required to agreed audit plans or Internal Audit is required to divert resource to urgent non-planned work, this will be agreed with the Chief Finance Officer and / or Chief Executive and reported to the Audit Committee. Where changes are less urgent, these will be discussed with senior management and the Chair of Audit Committee before being implemented. All changes to approved audit plans will be reported to the next meeting of the Audit Committee.



## **9 Ethics, Independence and Objectivity**

### Ethics

- 9.1 Internal Audit works to the highest standards of ethics and has a responsibility to both uphold and promote high standards of behaviour and conduct.
- 9.2 All internal auditors working within the UK public sector are now required to comply with the mandatory Code of Ethics contained within the new PSIAS, and the Seven Principles of Public Life. Internal Auditors will also be expected to adhere to the Officer's Code of Conduct in place for Carlisle City Council. As such this Code has been adopted by the Internal Audit Service and all staff will be requested to sign up to the Code on an annual basis. Auditors within the service are also required to comply with the codes of ethics of their professional bodies.

### Independence

- 9.3 Internal Audit is independent of all of the activities it is required to audit which ensures that Audit Committees can be assured that the annual opinion they are given is independent and objective. While the designated Head of Internal Audit reports operationally to the Section 151 Officer (Chief Finance Officer) there is also a functional reporting line to the Audit Committee and the designated Head of Internal Audit (or Principal Auditor) has direct access to the Chair of Audit Committee.
- 9.4 Internal auditors will not undertake assurance work in areas for which they had operational responsibility during the previous 12 months.
- 9.5 Internal Audit will report annually to the Audit Committee to confirm that the independence of Internal Audit is being maintained.

### Resourcing, Proficiency and Due Professional Care

- 9.6 For internal audit to provide an opinion to the Council within the Internal Audit Service there must be a sufficiently resourced team of staff with the appropriate mix of skills and qualifications. Resources must be effectively deployed to deliver the approved programmes of work. This may include bought-in specialist audit services, such as IT from third parties.
- 9.7 It is the responsibility of the Senior Management Team to ensure that they approve a programme of audit work sufficient to provide an adequate level of assurance over their systems of risk management, internal control and governance.
- 9.8 Internal Auditors, by the nature of their work, will receive and review significant volumes of information from the various clients of the Internal Audit Service. Confidentiality is therefore paramount and all internal audit staff are bound by the mandatory Code of Ethics within the PSIAS. The Code requires that auditors do not disclose information without the appropriate authority unless there is a legal or professional obligation to do so.
- 9.9 In line with the requirements of the Standards, in the event that the designated Head of Internal Audit considers that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences will be brought to the attention of the Audit Committee.

- 9.10 In line with the requirements of the PSIAS and the CIPFA Statement on the Role of the Head of Internal Audit (2010), the designated Head of Internal Audit, is professionally qualified and appropriately experienced.

The Role of Internal Audit in Fraud-related work

- 9.11 The PSIAS require that the role of internal audit in any fraud-related work is defined within the audit charter.
- 9.12 Internal audit may also undertake planned reviews of areas considered to be at particular risk of fraud. Such reviews will be included within audit plans following discussion with management for approval by the Audit Committee. In addition, where relevant, the risk of fraud is considered when undertaking risk based audit reviews.
- 9.13 It is recommended that the Council reviews its counter-fraud and confidential reporting (whistle blowing) arrangements and ensures appropriate arrangements are in place for reporting and investigating suspected frauds or other irregularities, including the reporting of frauds to Internal Audit. The Council's Counter Fraud Policy states that senior management are responsible for following up any allegation of fraud or corruption that is received and are required to report all suspected irregularities to the Chief Finance Officer. The Chief Finance Officer will liaise with the designated Head of Internal Audit (or Principal Auditor) to determine the appropriate way to proceed, including ensuring that any investigation is undertaken by suitably qualified and experienced staff.

Advice / Consultancy work

- 9.14 Where Internal Audit is requested to provide advice, consultancy, or investigatory work, the request will be assessed by the designated Head of Internal Audit. Such assignments will be accepted where it is considered the following criteria are met:
- The work request aligns with the available skills and resources within Internal Audit at the time;
  - The assignment will contribute to strengthening the control framework;
  - No conflict of interest could be perceived from Internal Audit's acceptance of the assignment; and
  - The request relates to functions that are the responsibility of the Council's management and are thereby not appropriate internal audit tasks.
- 9.15 In line with the PSIAS, approval will be sought from the Audit Committee for any significant additional consulting services not already included in the audit plan prior to accepting the engagement.

## **10 Management Responsibilities**

- 10.1 For Internal Audit to be fully effective, it needs the full commitment and cooperation from management in the Council. In approving this Charter, the S151 Officer (Chief Finance Officer) and the Audit Committee are mandating management to cooperate with Internal Audit in the delivery of the service by:
- Attending audit planning and scoping meetings and agreeing the terms of reference for individual audit assignments on a timely basis;
  - Sponsoring each audit assignment at Service Manager level or above;

- Providing Internal Audit with full support and cooperation, including complete access to all records, data, property and personnel relevant to the audit assignment on a timely basis;
- Responding to internal audit reports and making themselves available for audit finding and closeout meetings to agree draft audit reports;
- Implementing audit recommendations within agreed timescales.

10.2 Instances of non-cooperation with reasonable audit requests will be escalated through the Senior Management Team and ultimately to the Audit Committee if necessary.

10.3 While Internal Audit is responsible for providing independent assurance to the Council and the Audit Committee, it is the responsibility of the Council's management to develop and maintain appropriately controlled systems and operations. Internal Audit does not remove the responsibility from management to continually review the systems and processes for which they are responsible and to provide their own assurances to senior management and Elected Members that they are maintaining appropriately controlled systems.

## **11 Quality Assurance**

11.1 The PSIAS require that the Internal Audit function is subject to a quality assurance and improvement programme that must include both internal and external assessments. Internal Audit will report the outcomes of quality assessments to the Audit Committee through its regular and annual reports.

### Internal assessments

11.2 All internal audit reviews are subject to management quality review to ensure that the work meets the standards expected for audit staff. Such management review will include:

- Ensure the work complies with the PSIAS;
- Work is planned and undertaken in accordance with the level of assessed risk; and
- Appropriate testing is undertaken to support the conclusions drawn.

### External assessments

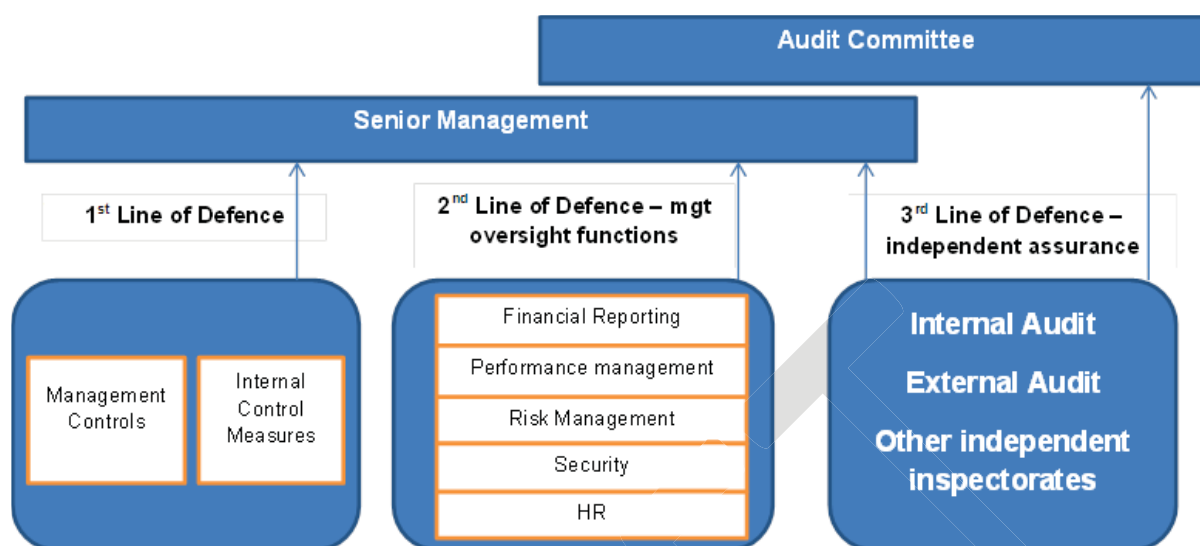
11.3 An external assessment must be conducted at least every five years by a qualified, independent assessor from outside the Council. The designated Head of Internal Audit will discuss options for the assessment with the Audit Committee and Senior Management Team.

## **12 Review of the Audit Charter**

12.1. This Charter will be reviewed annually and approved alongside the annual audit plan.



## Internal Audit - The Third Line of Defence



The above diagram demonstrates the three lines of defence in ensuring that the Council is adequately managing its risks.

The first line of defence comprises the arrangements that operational management have implemented to ensure risks are identified and managed. These include the controls that are in place within systems and processes together with the management and supervisory oversight designed to identify and correct any issues arising.

The second line of defence refers to the strategic oversight arrangements that are designed to provide management with information to confirm that the controls in the first line of defence are operating effectively. For example, the risk management policies and strategies that determine how risks within the Council will be identified, assessed and managed and the reporting arrangements to confirm that these policies and strategies are being appropriately implemented and complied with.

Internal audit forms the third line of defence alongside other independent providers of assurance. The role of internal audit is to provide the senior management and Elected Members of the organisation with assurance that the arrangements within the first and second lines of defence are adequate and working effectively to manage the risks faced by the organisation.



# Report to Audit Committee

Agenda Item:

**A.6**

Meeting Date: 19 March 2018  
Portfolio: Finance, Governance and Resources  
Key Decision: No  
Within Policy and Budget Framework YES  
Public / Private Public

Title: INTERNAL AUDIT PROGRESS QUARTER 4 – 2017/18  
Report of: CHIEF FINANCE OFFICER  
Report Number: RD49/17

## Purpose / Summary:

This report provides an overview of the work carried out by internal audit in the fourth quarter of 2017/18 (to date). The report also includes information on progress against the agreed audit plan, performance indicators and previous audit recommendations

## Recommendations:

The Committee is requested to

- (i) note the progress against the audit plan for 2017/18; and
- (ii) receive the final audit reports as outlined in paragraph 2.2
- (iii) approve the carry forward of three audit assignments to the 2018/19 audit plan as outlined in paragraph 3.3 and Appendix 1.

## Tracking

Audit Committee:	<b>19 March 2018</b>
Scrutiny Panel:	<b>Not applicable</b>
Council:	<b>Not applicable</b>

## 1. BACKGROUND INFORMATION

- 1.1 Management is responsible for establishing effective systems of governance, risk management and internal controls. It is the responsibility of management to establish appropriate arrangements to confirm that their systems are working effectively, that all information within them is accurate and that they are free from fraud or error.
- 1.2 Internal Audit's role is to provide independent assurance to senior management and Audit Committee over the adequacy and effectiveness of management's arrangements for governance, risk management and internal control.
- 1.3 This report summarises the work carried out by Internal Audit in the period from April 2017 to March 2018.

## 2. PROGRESS AGAINST AUDIT PLAN

- 2.1 Progress against the 2017/18 Audit plan is shown at **Appendix 1**.
- 2.2 There have been 3 audit reviews completed in the third quarter and 1 follow up completed. These are detailed below and reports are provided.

Review Area	Assurance Level
Flexitime and Toil	Reasonable
Arts Centre (Old Fire Station)	Partial
Housing Benefits and Council Tax Reduction	Substantial
IT General Controls (Follow Up of Grant Thornton Review)	N/A

- 2.3 Internal Audit resource was also utilised on the following during Q3:
- Internal Investigation – A further 9 days of audit time has been utilised on the internal investigation referred to at the previous committee meeting, which is now closed. The investigation related to an allegation regarding an undisclosed conflict of interests. The investigation upheld the allegation, which was also judged to have resulted in a loss of income for the Council. Disciplinary action has been taken by the authority. The decision was initially appealed, but the appeal was subsequently withdrawn.
  - Counter Fraud Training – Internal Audit delivered a short training session for Officers as part of the Council's Ethical Governance Programme.

## 3 PERFORMANCE INDICATORS

- 3.1 In order to provide an effective internal audit service, there needs to be an effective measure of the performance it achieves. The table below shows progress against the indicators agreed for 2017/18.

Indicator	Target	Actual (Q3)	Commentary
Planned Audits Completed	95% (Annual)	60% (To Date)	18/30 reviews finalised.
Audit Scopes Agreed	100%	100%	16 Scopes issued (all agreed)
Draft Reports issued by agreed deadline	80%	*	Indicator to be revised for 2018/19
Timely issue of Final Reports (within 8 days of management response)	80%	93%	14/15 reports issued within 8 days of response.
Recommendations agreed	95%	100%	All recommendations agreed.
Assignment completion within allocated resource	50%	55%	10/18 reviews within budget (Overall 244 audits days have been utilised against 230 planned days).
Quality Assurance checks completed	100%	100%	Audit Control Sheets completed for all finalised reviews.
Customer satisfaction survey feedback (scored as good)	80%	100%	3 returns received to date
Efficiency (Chargeable time)	80%	83%	

3.2 It is anticipated that 27 reviews will be completed (to draft report) by 31<sup>st</sup> March 2018 (90% of the Internal Audit Plan). This is a slight shortfall against the target of 95% due to more resource than planned (53 actual days against a planned 20) being required for counter-fraud work.

3.3 Three reviews are unlikely to be completed by the end of the year. Approval is requested that these assignments are carried forward into the 2018/19 Internal Audit Plan:

- Safeguarding (deferred due to change in management)
- Garage (deferred due to long term absence)
- Records Management Follow Up

## 4 AUDIT RECOMMENDATIONS

4.1 **Appendix 2** shows a summary position of outstanding audit recommendations and progress made against implementing these. Once the agreed implementation date has passed, internal audit will ask the responsible officer for an update of progress. The responses will then be reported to the next available Audit Committee meeting and, if implemented, will then be removed from the list so that only outstanding recommendations remain. Where the recommendations relate to a partial assurance audit, these will be subject to a formal follow up and will be reported back to Audit Committee separately. New recommendations will be added to the list once final reports are agreed.

- 4.2 Three formal follow-up reviews are currently in progress. Management responses have been received and are currently being tested to ensure audit recommendations have been fully implemented.

## **5 EXTERNAL QUALITY ASSESSMENT**

- 5.1 In accordance with the Public Sector Internal Audit Standards the Internal Audit department is required to have a full external assessment of compliance with the Audit Standards. Assessments must be done at least once every five years by a qualified, independent assessor from outside the organisation.
- 5.2 Following a procurement exercise the City Council have appointed CIPFA to carry out a review in 2018.
- 5.3 A preliminary readiness review was carried out in January 2018. Informal feedback from the assessor was positive, indicating that the right documentation and processes are in place for the team. Some suggested improvements were made regarding the Internal Audit Charter which have subsequently been included for 2018/19. (see separate report RD50/17 considered elsewhere on the agenda)
- 5.4 A full assessment is scheduled for April 2018. Findings from the review will be reported to the Audit Committee in 2018/19.

## **6. CONSULTATION**

- 6.1 not applicable

## **7. CONCLUSION AND REASONS FOR RECOMMENDATIONS**

The Committee is asked to

- (i) note the progress against the audit plan for 2017/18; and
- (ii) receive the final audit reports as outlined in paragraph 2.2
- (iii) approve the carry forward of three audit assignments to the 2018/19 audit plan as outlined in paragraph 3.3 and Appendix 1

## **8. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES**

- 8.1 To support the Council in maintaining an effective framework regarding governance, risk management and internal control which underpins the delivery the Council's corporate priorities and helps to ensure efficient use of Council resources.

**Contact Officer: Steven Tickner Ext: 7280**

**Appendices attached to report:**

- Appendix 1 – Progress against Audit Plan and Timeline of audits**
- Appendix 2 – Audit Reports issued in Quarter 1**
- Appendix 3 – Progress against previous Audit Recommendations**

**Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers:**

- **None**

**CORPORATE IMPLICATIONS/RISKS:**

**Community Services** – not applicable

**Economic Development** – not applicable

**Governance & Regulatory Services** – In accordance with the terms of reference of the Audit Committee, Members must consider a summary of internal audit activity and summaries of specific internal audit reports. This report fulfils that requirement.

**Corporate Support and Resources** – Contained within the report

**CARLISLE CITY COUNCIL  
PROGRESS AGAINST REVISED AUDIT PLAN 2017/18**

Service Area	Review Type	Audit Area	Allocated Days	Days Taken	Status	Audit Committee Date	Assurance Evaluation	Comments
Various	2016/17	Contribution to Shared Service c/f	52	52	Finalised	Jul 2017	Various	
Policy & Communications	Follow Up	Records Management	5	4	Finalised	Jul 2017	Partial	
Corporate	MFS	Internal Control Questionnaires - Non Audited Systems	0	0	Finalised	Sep 2017	N/A	2 hours in 17/18
Corporate	Corporate	Corporate Governance - Compliance with Local Code	20	15	Finalised	Sep 2017	N/A	
Financial Services	Directorate	Corporate Charge Card	20	16	Finalised	Sep 2017	Partial	
Democratic Services	Directorate	Gifts and Hospitality	7	7	Finalised	Sep 2017	Substantial	
Revenues and Benefits	Follow Up	Benefit Overpayments	5	2	Finalised	Sep 2017	Substantial	
Organisational Development	Follow Up	Workforce Development and Training	5	4	Finalised	Sep 2017	Substantial	
Revenues & Benefits	Directorate (16/17)	NNDR	20	21	Finalised	Sep 2017	Reasonable	
Counter Fraud	Fraud	National Fraud Initiative	10	14	Finalised	Sep 2017	N/A	
Environmental Health	Directorate	Public health & safety/enforcement	20	24	Finalised	Jan 2018	Reasonable	
Housing	Follow Up	Home Life	5	6	Finalised	Jan 2018	Substantial	
Business & Employment	Follow Up	Enterprise Centre	5	4	Finalised	Jan 2018	Substantial	
Development Control	Directorate	Section 106 agreements / CIL	20	20	Finalised	Jan 2018	Reasonable	



Service Area	Review Type	Audit Area	Allocated Days	Days Taken	Status	Audit Committee Date	Assurance Evaluation	Comments
Green Spaces	Directorate	Talkin Tarn & Boathouse Tea Room	20	27	Finalised	Jan 2018	Reasonable	
Service Support	Directorate	Flexitime and TOIL	20	22	Finalised	Mar 2018	Reasonable	
Arts, Culture and Sports	Directorate	Arts Centre	20	32	Finalised	Mar 2018	Partial	
Revenues and Benefits	MFS	Housing and Council Tax Benefits	20	17	Finalised	Mar 2018	Substantial	
DIS	Follow Up	IT General Controls	5	4	Finalised	Mar 2018	N/A	
Service Support	Directorate	Salary Sacrifice & Holiday Purchase Schemes	0	0	In progress	Jul 2018		Incorporated with payroll audit
Housing	Directorate	Supporting People (grant income, Hostels & Homeshares)	5	1	Scoped	Jul 2018		Reduced scope
Financial Services	MFS	Income Management & Cash Collection	20	6	In progress	Jul 2018		
Financial Services	MFS	Payroll	20	17	In progress	Jul 2018		
Financial Services	MFS	Debtors	20	9	In progress	Jul 2018		
Corporate	Corporate	Business Continuity Planning	20	0	Scoped	Jul 2018		
Policy & Communications	Follow Up	Performance Management	5	2	In progress	Jul 2018		
Building Control	Follow Up	Physical Security of Premises	5	0	In Progress	Jul 2018		
Property & Facilities Mgmt	Follow Up	Building Maintenance	5	0	In Progress	Jul 2018		
Garage Services	Directorate	Garage incl. Driver checks	20	2	C/F 18/19	TBC		Postponed (Staff absence)
Human Resources	Directorate	Safeguarding incl DBS	20	1	C/F 18/19	TBC		Postponed (staff change)

Service Area	Review Type	Audit Area	Allocated Days	Days Taken	Status	Audit Committee Date	Assurance Evaluation	Comments
Policy & Communications	Follow Up	Records Management	5	0	C/F 18/19	TBC		
		<b>TOTAL</b>	<b>424</b>	329				
		Follow Up (General)	5	4				
		Counter Fraud	20	53				
		Advice & Guidance	12	5				
		Audit Committee	20	13				
		Planning	20	34				
		<b>OVERALL TOTAL</b>	<b>501</b>	<b>438*</b>				

\* Days taken as at 2<sup>nd</sup> March 2018 (excludes leave and training days)

N.B Audit Committee Dates are anticipated dates final reports will be presented to Audit Committee and may be subject to change depending upon completion of audit work

## Appendix 2 - Follow up monitoring spreadsheet

### Key

Recommendations reviewed by Internal Audit and evidenced as actioned (Closed)
Recommendation not appropriate for follow up e.g. relates to one off scheme (Closed)
Formal Audit follow up scheduled
Management Statement scheduled to request evidence of implementation
Recommendation not actioned - revised timescales for implementation agreed.
Recommendation reviewed and not confirmed as actioned (no response/revised timescales have passed).

Audit Review						Assurance Level
2015/16 - Building Maintenance						Partial
Recommendation	Priority	Agreed action	Responsible Manager	Date	Status	
<ul style="list-style-type: none"> <li>Management should put in place adequate arrangements to ensure that statutory maintenance is undertaken as required at all properties and that they are assured that this is taking place. This should include: <ul style="list-style-type: none"> <li>Maintaining an up to date system to record all statutory maintenance requirements and whether these have been met;</li> <li>Ensuring data in the system is supported by relevant inspection reports</li> <li>Requiring regular reports from the system to be reviewed to provide assurance that the council properties remain compliant with statutory requirements</li> </ul> </li> </ul>	H	<p>The database information used for recording and monitoring statutory maintenance certifications will be brought up to date. Resources will be allocated within the Property Services team restructure to ensure the database records are continually updated in the future as certifications arise.</p> <p>A system for monitoring the status and delivery of the statutory maintenance programme will be introduced and reports prepared on a monthly basis by the Property Technical Assistant. These will be checked by the Building and Facilities Manager to ensure properties are compliant, the system is up to date, and the supporting evidence is in place.</p>	Building and Estates Services Manager	31/12/2016	Formal follow up in progress (to be reported at July 2018 Audit Committee)	
Management should ensure that appropriate arrangements are established to plan, record and monitor property condition surveys.	H	A fresh programme for undertaking condition surveys will be established for the occupational property portfolio. Reports on condition will be procured utilising the services of an external Building Surveyor. Service delivery, monitoring and recording of the condition surveys will be undertaken annually; the results will be reported upon and used to update the Asset Management Plan and inform future planned building maintenance.	Building and Estates Services Manager	31/12/2017	Formal follow up in progress (to be reported at July 2018 Audit Committee)	
Management should document how Council Surveyors should carry out a condition survey, what should be inspected, how it should be recorded and what should be reported.	M	Guidance on the preparation, inspection, protocol and methodology for undertaking condition surveys, and reporting the results/outcomes with appropriate documentation, will be put in place in accordance with RICS industry standard practice	Building and Estates Services Manager	31/12/2017	Formal follow up in progress (to be reported at July 2018 Audit Committee)	
Management should put in place adequate arrangements to be assured that statutory maintenance requirements are met in council buildings that are leased to third parties and that information on this is obtained in a timescale that will allow all certification to be brought up to date prior to handover.	M	Estate Management Practices will be put in place in order to monitor Lessee compliance with statutory maintenance and the provision of supporting certification / documentation. This will be checked annually, to make sure it's up to date, and at the end of the Lease term.	Building and Estates Services Manager	31/07/2017	Formal follow up in progress (to be reported at July 2018 Audit Committee)	

Audit Review						Assurance Level
<b>2016/17 Car Parking Income</b>						Reasonable
Recommendation	Priority	Agreed action	Responsible Manager	Date	Status	
a) Objectives set out in the Car parking and city centre service plan would benefit from being constructed in a specific, meaningful, achievable, relevant and time bound (SMART) manner; b) Performance against the objectives in the service plan should be subject to regular review by management, using appropriate key performance indicators. c) The SWOT analysis should be carried out to inform the future car parking strategy.	<b>M</b>	The Council has introduced a new service plan template which includes the requirement to undertake a SWOT analysis and develop key performance indicators that are SMART (specific, measurable, achievable, realistic and time limited). The Car parking and city centre service plan will be completed using this template and progress against the plan will be reviewed at monthly team meetings.	Contracts and Community Services Manager	30/06/2017	Evidence provided that recommendation implemented.	
Operational risks should be considered and recorded on project server in line with the Council's Risk Management Policy.	<b>M</b>	Operational risks relating to Car Parking have now been added to the Contracts and Community Services departmental risk register.	Contracts and Community Services Manager	Immediate	Evidence provided that recommendation implemented.	
Staff procedures should be documented and regularly reviewed by management and for CEO's should include interpretation of surveillance legislation.	<b>M</b>	Procedures for the Car Parking team will be documented and then reviewed every two years. Arrangements for compliance with surveillance legislation will be reviewed and included in documented procedures.	Contracts and Community Services Manager & City Centre and Car Parking Manager	30/11/2017	Evidence provided that recommendation in progress (3 procedure notes completed, with remainder scheduled 2018/19)	

Audit Review						Assurance Level
<b>2016/17 Homeworking Follow Up</b>						Reasonable
Recommendation	Priority	Agreed action	Responsible Manager	Implementation date	Status	
Documentation relating to employment and changes in working arrangements, i.e. homeworking agreements, should be held with related information on employees' personnel files.	<b>M</b>	Accepted (Director Comments)	Chief Finance Officer	None stated	Closed - review of controls in place indicate no further action required.	
An inventory of council assets held by homeworkers should be maintained by Managers in accordance with the homeworking agreement.	<b>M</b>	Accepted (Director Comments)	Chief Finance Officer	None stated	Closed - review of controls in place indicate no further action required.	

Audit Review							Assurance Level	
2016/17 Mobile Device Security							Partial	
Recommendation	Priority	Agreed action	Responsible Manager	Date	Status			
Senior management should ensure that governance arrangements around information security, including the security of mobile devices are clearly defined and embedded. Consideration should be given to the points raised above.	H	<p>Responsibility for Information Security has now been subsumed into the Business Management &amp; Development Sub-Group which, in addition to scrutinising and challenging proposed policies, will keep proper records of its deliberations.</p> <p>Secondly, the Council is in the process of establishing an Information Officer post (as required from 2018 by the European General Data Protection Regulations 2016) and such post will have responsibility for ensuring that we not only have relevant policies for Information Management and Security but also for embedding good practice within the organisation.</p>	Corporate Director of Governance & Regulatory Services	01/12/2017	Full review to be performed 18/19 (inc. follow up of o/s recs)			
<p>a) Arrangements should be put in place to launch the new information security policies with appropriate training provision.</p> <p>b) Arrangements should be in place to give management assurance that all relevant staff have completed required mandatory training.</p>	H	<p>Please see management action statement for 5.1.1 re the Information Officer post.</p> <p>Training will be designed and delivered once the relevant policies are established.</p>	Town Clerk & Chief Executive	01/04/2018	Full review to be performed 18/19 (inc. follow up of o/s recs)			
Senior management should clarify their intentions around mobile device usage going forwards and ensure appropriate IT support; security and training arrangements are in place.	H	<p>The introduction of Microsoft's Office 365 and Enterprise Mobility and Security technologies will improve the security of information held on mobile devices. Along with the implementation of these technologies a new framework will be implemented at the same time.</p> <p>Use of Office 365 across a host of devices, coupled with meeting the demand for more flexible working will define intentions around mobile device use in the future.</p>	ICT Services Manager	01/04/2018	Full review to be performed 18/19 (inc. follow up of o/s recs)			

Audit Review						Assurance Level	
2016/17 - Performance Management						Partial	
Recommendation	Priority	Agreed action	Responsible Manager	Date	Status		
<p>a) Corporate arrangements for assessing and monitoring the progress of delivering the Carlisle Plan 2015-18 priorities including the arrangements for having actions/projects that are SMART and performance measures/targets/indicators etc. should be clearly defined and documented. A timescale should be set for documenting and implementing these arrangements.</p> <p>The Service Standards should be reviewed, updated and aligned to measure the success of delivering service plan objectives.</p>	<b>H</b>	<p>SMART actions have been set within 27 service plans submitted in May and June. These service plans cover all the key actions in the Carlisle Plan.</p> <p>Service planning will continue to be developed over the autumn to link the service plans to the 2018/19 budget setting process. A timescale will be set for documenting and implementing these arrangements in early August.</p> <p>A more detailed template for reporting progress on the Carlisle Plan key actions has been developed to ensure complete coverage of all the actions.</p> <p>The 27 service plans include actions to develop new service standards. As these are developed this year (2017/18), working with the relevant Overview &amp; Scrutiny Panel, the overall number of service standards will be reviewed. Through this work Service Standards will measure the success of delivering services and specific service plan objectives.</p>	Policy and Communications Manager	<p>04/08/2017</p> <p>27/10/17</p>	Formal follow up in progress (to be reported at July 2018 Audit Committee)		
<p>Management should ensure that the performance management arrangements re the Carlisle Plan are effectively implemented and that these are incorporated into the Performance Management Framework.</p>	<b>M</b>	<p>A new performance framework was agreed by SMT in April (11/4/17).</p> <p>This framework links the Carlisle Plan to Service Plans and the Appraisal Scheme. DMT meetings will be set to include performance management linked to the performance reporting cycle.</p> <p>The Performance Framework will be reviewed at the end of the year alongside the End Of Year Report.</p> <p>In addition new arrangements are being made for the development of a new system of monitoring and taking action on performance using Microsoft Power BI as a tool for collecting and analysing appropriate data.</p>	Policy & Communications Manager	24/04/2018	Formal follow up in progress (to be reported at July 2018 Audit Committee)		
<p>a) Management should evidence their review of risks and risks registers in accordance with the risk management policy.</p> <p>b) Corporate Directors should be reminded of their responsibilities for being assured that risks relating to strategic and operational performance management objectives are appropriately identified, assessed and managed.</p>	<b>M</b>	<p>SMT have continued to review the Corporate Risk Register on a regular cycle during this period and have more recently (6<sup>th</sup> June) reviewed the policy and management arrangements for elevating and managing emerging risks relating to all risks including performance management.</p> <p>Corporate Directors are aware of their responsibilities regarding performance management objectives and any risks arising.</p>	Deputy Chief Executive / Senior Management Team	Completed	Formal follow up in progress (to be reported at July 2018 Audit Committee)		

Audit Review						Assurance Level
2016/17 - Performance Management						Partial
Recommendation	Priority	Agreed action	Responsible Manager	Date	Status	
<p>a) Corporate Directors should be reminded of their responsibilities for being assured that the roles and responsibilities from Executive to staff are clearly defined in the performance management framework.</p> <p>b) Corporate Directors should be reminded of their responsibilities for being assured that performance appraisals are undertaken to ensure that managers and staff carry out their roles and responsibilities relating to performance management effectively.</p>	<b>M</b>	Completed via SMT.	D Crossley	Completed	Formal follow up in progress (to be reported at July 2018 Audit Committee)	
<p>Management should review the performance monitoring reports to ensure that the content includes all areas of performance that impact on the monitoring and decision making on Carlisle Plan priorities in particular including those projects where no updates were available.</p>	<b>M</b>	<p>A more detailed template for reporting progress on the Carlisle Plan key actions has been developed to ensure complete coverage of all the actions.</p> <p>This template was implemented for the 2016/17 End Of Year Report and will be developed further to include the action for recommendation 1a.</p>	Policy & Communications Manager	04/08/2017	Formal follow up in progress (to be reported at July 2018 Audit Committee)	
<p>a) A timescale should be set for the implementation of the new performance management framework.</p> <p>b) Management should communicate and provide training on the new performance management framework to all those involved in performance management to ensure that they are aware of and understand their roles and responsibilities.</p>	<b>H</b>	<p>A new performance framework was agreed by SMT in April (11/4/17).</p> <p>This framework links the Carlisle Plan to Service Plans and the Appraisal Scheme. DMT meetings will be set to include performance management linked to the performance reporting cycle.</p> <p>The framework has been communicated with service managers through Management Briefing (May 2017).</p> <p>Service managers have received a new template for service planning and guidance on appraisals. A single site for performance management is being developed on the intranet and further developments have been requested through ICT.</p> <p>DMT meetings will be set to include performance management linked to the performance reporting cycle. This will ensure that all those involved in performance management are aware of and understand their roles and responsibilities.</p>	Policy & Communications Manager	a) Complete b) 04/08/17	Formal follow up in progress (to be reported at July 2018 Audit Committee)	
<p>The corporate guidance and template for service planning should be updated and the format agreed by SMT</p>	<b>M</b>	Service planning has been introduced and completed. The approach has unique plans for service areas with detail around key areas. The service plans captures and reflects the work priorities and objectives of each service within the directorate and how these link to the Carlisle Plan.	Policy and Communications Manager	Completed	Formal follow up in progress (to be reported at July 2018 Audit Committee)	
<p>Directorates' performance should be a regular item at DMT meetings and discussions and actions arising from these should be recorded.</p>	<b>M</b>	DMT meetings will be set to include performance management linked to the performance reporting cycle.	Policy & Communications Manager / PA Support Manager	04/08/2017	Formal follow up in progress (to be reported at July 2018 Audit Committee)	
<p>a) The Policy &amp; Performance Team should perform regular data quality checks on performance reports to provide regular assurance that the performance data is accurate and reliable for decision making.</p> <p>b) A timescale should be set of the finalisation and implementation of the revised data quality checks.</p>	<b>M</b>	All historic data used in performance reporting will be assessed annually to calculate variance to determine what is considered 'normal' data. Throughout the year the data will be quality checked for erroneous records e.g. missing or duplicate data or for data that falls outside of the 'normal' range.	Policy & Communications Manager	04/08/2017	Formal follow up in progress (to be reported at July 2018 Audit Committee)	



Audit Review						Assurance Level
2016/17 - Physical Security of Premises						Partial
Recommendation	Priority	Agreed action	Responsible Manager	Date	Status	
<p>a) Management should identify, clearly define and communicate to staff the aims and objectives for the physical security of premises.</p> <p>b) Corporate arrangements should be introduced to monitor the delivery of these objectives and regularly report progress on these to senior management.</p> <p>c) Arrangements should be introduced to monitor and report the progress on delivering the Building Services Action Plan.</p>	<b>H</b>	<p>The one objective in relation to the physical security of the Council's premises is to make the premises secure. Financial Procedure Rule (FPR) 4 states clearly that 'all Members and staff have a general responsibility for taking reasonable action to provide for the security of the assets under their control.' In furtherance of this recommendation, however, we have now ensured that the topic is recorded in the Building Services Action Plan and Service Plan for 2017/18. The Manager is responsible for monitoring the achievement of tasks in the action plan and these will be reported through the Directorate Management Team. FPR3.13 provides that Directors should ensure...that assets...are...securely held. To implement this requirement the Council employ an officer(s) with responsibility for security and this requirement is stated in Buildings and Estate Services Manager and Keepers' job descriptions.</p> <p>Section C of the FPRs clearly explains why security of assets is important and are safeguarded and C58 specifies the key controls. C65/69 restates that Directors are responsible for assets under their control – officers are employed to fulfil this responsibility.</p>	Building & Estates Services Manager	Implemented	Formal follow up in progress (to be reported at July 2018 Audit Committee)	
<p>a) A record should be retained of discussions relating to consideration of risks for inclusion in the Directorate's risk register.</p> <p>b) A timescale should be set for the Building and Estates Services Manager to attend the Risk Management training.</p>	<b>M</b>	<p>If a risk is identified then it is recorded on the Directorate or Corporate Risk Register. Anything deemed a risk, even low likelihood and low impact, should be recorded in this system. However, it is not practical nor a good use of resources to record all discussions which lead to the conclusion that a matter is not a risk. This would not add any value to our operations.</p> <p>The Council runs annual risk management training which is available to all staff. It is not mandatory and the Building and Estate Services Manager has only been in post since August 2016, however, she will attend the next risk management training session. By virtue of the fact the course is not classed as mandatory then it is appropriate to include this as a recommendation above advisory status as attendance on risk management training is highly unlikely to affect the security of our premises. However, we accept the positive benefit of the BESM attending the said training.</p>	Corporate Director of Governance & Regulatory Services	Implemented	Formal follow up in progress (to be reported at July 2018 Audit Committee)	
Guidance on the procedure to report physical security incidents/breaches should be clearly defined, documented and communicated. This guidance should inform and assist staff in identifying such incidents and clearly define how such matters are to be reported and investigated.	<b>M</b>	We will document the agreed process which currently exists: i.e. if there is a problem, staff advise their manager. In accordance with best practice we are also developing premises specific handbooks to be in place at each premises.	Building & Estates Services Manager	31/07/2017	Formal follow up in progress (to be reported at July 2018 Audit Committee)	



Audit Review							Assurance Level	
2016/17 - Physical Security of Premises							Partial	
Recommendation	Priority	Agreed action	Responsible Manager	Date	Status			
<p>a) Corporate and departmental guidance should be formally documented to direct and inform staff of the Council's physical security arrangements over its premises. This guidance may consist of premises handbooks for each of the operational buildings in the Council's portfolio that detail how security arrangements are implemented including building assessments.</p> <p>b) Once this new guidance is in place a timescale should be set for new staff to be trained on the Council's building security arrangements.</p>	<b>H</b>	<p>When staff commence work at their respective places of work they receive instruction as to how to enter and leave the premises, for example, staff at the Civic Centre are allocated a fob and shown how to access the building and their individual place of work. Staff also know that the public are not allowed to enter the building outside of prescribed hours. This is a clear system which has worked faultlessly, however, we will document it as requested. Training on building security will be provided for all new staff together with updates and refresher training whenever appropriate.</p>	Building and Estates Services Manager	30/08/2017	Formal follow up in progress (to be reported at July 2018 Audit Committee)			
<p>a) A record should be retained of the Keepers' security checks on the Civic Centre premises and their results. Management should be assured that these checks are undertaken and where security issues are identified these should be escalated and investigated.</p> <p>b) The Building and Estates Services Manager should obtain assurance that physical security checks are performed across all Councils' premises and there is evidence to support that these are undertaken and reported</p>	<b>M</b>	<p>a) Noting that there has not been one breach of security other than in exceptional circumstances, we will create an administrative system to deliver this recommendation. The keepers will continue to complete the established log referred to in 5.2.2 but will also now carry out the additional task of filling in a further record sheet confirming that opening and checking the building each morning, locking front and centre side doors etc. checks have been carried out. The BESM will also establish a further administrative system so that periodically she reviews the two logs.</p> <p>b) The BESM will cover this area within the proposed building handbooks for individual premises.</p>	Building and Estates Services Manager	26/08/2017	Formal follow up in progress (to be reported at July 2018 Audit Committee)			

Audit Review							Assurance Level
2017/18 - Record Management Follow Up (H1706)							Partial
Recommendation	Priority	Agreed action	Responsible Manager	Date	Status		
The Corporate Records Management Policy should be updated. Once updated the policy should be formally approved by the Senior Management Team.	M	The Corporate Records Management Policy will be updated and formally approved by the Senior Management Team	Policy & Communications Manager	04/07/2017	Formal follow up to be performed Q1 2018/19		
The Retention Schedule 2016 be placed on the Intranet alongside the Corporate Records Management Policy, to ensure that all staff can access this information. Both the Records Management Policy & Retention Schedule 2016 should detail the date when they are due to be reviewed and who is responsible for this review.	M	The policy and 2016 schedules will be updated with a review date and responsible reviewer. The schedules will be moved to the intranet site from Project Server. This change will be shared with Management Briefing in August and be followed up with a round of DMTs.	Policy & Communications Manager	12/7/17 Moving schedules; 4/8/17 Management Briefing; next available round of DMTs after Management Briefing	Formal follow up to be performed Q1 2018/19		
The records management framework should be completed and rolled out to managers and staff as per the Corporate Records Management Policy.	M	An overarching Information Governance Policy will be developed. This policy will be rolled out to managers with guidance.	Policy & Communications Manager	January-March 2018	Formal follow up to be performed Q1 2018/19		
Management should discuss and agree what information needs to be included within the Constitution with relation to records management and retention of records, once agreed the necessary amendments including relevant links should be agreed and made	M	Appendix F of the Financial Procedure Rules contain "guidelines" on how long documents should be held and these relate, predominantly, to important information from Financial Services' perspective. The view of the s151 Officer predominates here and the periods stipulated are still current. It is open to the Council, through its retention policy, to have other periods for different types of records. Ideally, they should dovetail and a review will be carried out to ensure that this happens. In short, it may not be appropriate to change the periods stated in the FPRs; if it is, they will.	Corporate Director of Governance & Regulatory Services	30/09/2017	Formal follow up to be performed Q1 2018/19		
Arrangements should be implemented to give management assurance that service managers are maintaining a Retention Schedule and Disposal Log.	M	Arrangements will be implemented to give management assurance that service managers are maintaining a Retention Schedule and Disposal Log. This will be followed up with a round of DMTs and individual meetings with service managers.	Policy & Communications Manager	30/09/2017	Formal follow up to be performed Q1 2018/19		
Senior management should review and delegate responsibility for records management to an appropriately trained member of staff who should be referred to (by post) within the Records Management Policy and within the associated job description.	M	Responsibility for Information Management & Development Sub-Group of SMT under the Corporate Director of Governance & Regulatory Services. In addition, and as part of the compliance plan for the EU GDPR (the new Data Protection Regs), the Council will be appointing an Information Officer who will be responsible for creating and developing an appropriate suite of policies and documentation and also ensuring that they are embedded within our organisation.	Corporate Director of Governance & Regulatory Services	31/05/2018	Formal follow up to be performed Q1 2018/19		

Audit Review						Assurance Level
2017/18 - Corporate Charge Card (B1701)						Partial
Recommendation	Priority	Agreed action	Responsible Manager	Date	Status	
The Purchasing Card Procedures need to be brought up to date. Once updated all cardholders should receive a copy of the revised procedures and any future updates to legislation, processes etc. The procedures should also refer to the requirement for internet purchases to be made via secured websites only.	M	Procedures will be reviewed and brought up to date with additional details on appropriate use and completion of transaction logs.	Deputy Chief Finance Officer	31/08/2017	Formal follow up to be performed Q1 2018/19	
Management should ensure that cardholders never provide their card to other staff to use. A process should be implemented and documented within the procedures to cover requests by other staff for the card holder to make purchases on their behalf.	H	Reminders will be given to all cardholders about their responsibilities in using corporate purchasing cards. These will also be included in the revised procedures	Deputy Chief Finance Officer	31/08/2017	Formal follow up to be performed Q1 2018/19	
The cardholder should complete the transaction log every time the card is used to make a purchase.	M	Reminders will be given to all cardholders about their responsibilities in using corporate purchasing cards. These will also be included in the revised procedures	Deputy Chief Finance Officer	31/08/2017	Formal follow up to be performed Q1 2018/19	
Arrangements should be implemented to ensure that cardholders only use secure websites when making internet purchases.	M	Reminders will be given to all cardholders about their responsibilities in using corporate purchasing cards. These will also be included in the revised procedures	Deputy Chief Finance Officer	31/08/2017	Formal follow up to be performed Q1 2018/19	
A reminder should be sent to all cardholders and line managers to ensure: -Suitable documentation such as itemised receipts, including VAT where applicable and reason for spend should be attached to the monthly transaction logs; -Travel and subsistence is appropriately claimed. - Management are responsible for checking this when approving the transaction log	M	Reminders will be given to all cardholders about their responsibilities in using corporate purchasing cards. These will also be included in the revised procedures	Deputy Chief Finance Officer	30/08/2017	Formal follow up to be performed Q1 2018/19	
Audit Review						Assurance Level
2017/18 - National Non Domestic Rates (H1706)						Partial
Recommendation	Priority	Agreed action	Responsible Manager	Date	Status	
Responsibility for areas of NNDR should be formally delegated to the appropriate officer.	M	Revenues and Benefits operations Manager will raise at his next 1 to 1 and will ensure that the delegation is completed.	Revenues and Benefits Manager	6 Months	Management statement to be issued Q1 2018/19	
Appraisal process should be followed and should be completed timely. A decision need to be made on which officer is responsible for undertaking the wider team appraisal and ensuring that staff training needs are identified.	M	The new cycle of appraisals is about to commence and a decision will be made and actioned by year end.	Revenues and Benefits Manager	Mar-18	Management statement to be issued Q1 2018/19	
Management need to put into place a document retention policy for the NNDR section and to ensure that timely disposal of documents is complied with for all records, electronic and paper.	M	The document retention policy will be in place for NNDR by the end of the financial year. Testing on the two electronic systems, Academy and Civica, and the reliability of disposal to be commenced early 2018/19.	Revenues and Benefits Manager	Mar-18	Management statement to be issued Q1 2018/19	

Audit Review						Assurance Level
2017/18 - S106 Agreements (C1701)						Reasonable
Recommendation	Priority	Agreed action	Responsible Manager	Date	Status	
Following consultation with all relevant parties, procedure notes detailing the processes taken to monitor and deliver S106 agreements should be prepared. Communication processes should be included	M	To establish a procedure and communication protocol for the monitoring and delivery of S106 agreements, building on the work drafted by the Policy and Performance.	Investment & Policy Manager	01-Apr-18	Management statement to be issued Q2 2018/19	
Consideration should be given to including risks relating to S106 agreements as part of the authority's quarterly monitoring of operation risk	M	Comprise a risk register for S106 agreements which can be fed into the service areas quarterly monitoring of risks to enable appropriate action to be taken. Process to form part of the procedure and communication protocol	Investment & Policy Manager	01-Apr-18	Management statement to be issued Q2 2018/19	
Meetings to discuss progress of S106 agreements should be held on a more regular basis.	M	Pre-programme S106 discussion meetings at predetermined intervals to be established as a sub group of the Economic Growth Board	Investment & Policy Manager	01-Apr-18	Management statement to be issued Q2 2018/19	
A list of agreed actions arising from the meetings should be devised and maintained. The list should be designed to ensure all outstanding obligations are assigned to an officer, with a timescale for completing the various steps required. Progress against actions should be monitored on a regular basis	M	Minutes and actions to be recorded at the S106 meetings and circulated.	Investment & Policy Manager	01-Apr-18	Management statement to be issued Q2 2018/19	
Delivery of obligations should be reported to Senior Management on a regular basis	M	As it is envisaged that Action 3 will be a subgroup of the Economic Growth Board minutes and actions will be reported to that board which is chaired by the Corporate Director of Economic Development.	Investment & Policy Manager	01-Apr-18	Management statement to be issued Q2 2018/19	
Audit Review						Assurance Level
2017/18 - Talkin Tarn (D1701)						Reasonable
Recommendation	Priority	Agreed action	Responsible Manager	Date	Status	
Documentation should be produced to support the monitoring of the Service Plans.	M	Keep notes of monitoring meetings.	Site Management Team Leader	Ongoing from publication of report	Management statement to be issued Q2 2018/19	
The operational risk register should be reviewed and consideration given specific risks at Talkin Tarn.	M	Specific TT risks identified and added to the operational risk register	Site Management Team Leader / Neighbourhood and Greenspaces Manager	01-Feb-18	Management statement to be issued Q2 2018/19	

Audit Review						Assurance Level
2017/18 - Talkin Tarn (D1701)						Reasonable
Recommendation	Priority	Agreed action	Responsible Manager	Date	Status	
The processes in relation to the CCTV system at Talkin Tarn should be improved and documented. In addition a general review of all the procedures should be undertaken and updated to reflect the current working practices.	M	Review of CCTV operation at Talkin Tarn. Procedures updated.	Site Management Team Leader / Green Spaces Operations Manager,	01-Mar-18	Management statement to be issued Q2 2018/19	
The health and Safety folder should be reviewed regularly and updated as necessary.	M	H&S folder reviewed and updated	Site Management Team Leader / Health and Safety Manager	01-Mar-18	Management statement to be issued Q2 2018/19	
All documentation holding personal information should be kept in a locked cupboard.	M	Move booking records etc. to a locked cupboard or cabinet.	Talkin Tarn Team Room & Gift shop Manager	01-Jan-18	Management statement to be issued Q2 2018/19	
Roles and responsibilities should be documented for casual staff.	M	Roles and responsibilities identified for casual staff; consideration of temporary contracts.	Site Management Team Leader / Talkin Tarn Team Room & Gift shop Manager / HR Advisor	Commencing Feb 18	Management statement to be issued Q2 2018/19	
Audit Review						Assurance Level
2017/18 - Public Health (E1702)						Reasonable
Recommendation	Priority	Agreed action	Responsible Manager	Date	Status	
Quarterly management checks should be introduced to ensure the effectiveness and accuracy of information on Flare. These checks should be recorded on the system. As part of the checks management should also ensure that: -Officers record all relevant information on Flare, including premises visits, notes for all relevant action taken, results of specific tests, for example water sample results. -Correct codes are used on Flare. -An EMM form is completed as required.	M	AGA code introduced for Auditing Management checks. Principal Health and Housing Officer (PHHO) responsible for checks. Regulatory Services Manager to monthly report AGA codes for Principal to monitor checks are completed.	Regulatory Services Manager and Principal Health and Housing Officer	15th November 2017	Management statement to be issued Q2 2018/19	
		Inform/brief officers of the need to record correct H&S action codes	PHHO	12th December 2017 (Team meeting)		
		Review Flare reports to ensure 'check data' included for quarterly management checks – enable PHHO to target Flare records for audit checks (AGA code)	PHHO	31st December 2017		
		EMM code to be added to Flare accident record (action diary template) – officers to be informed/briefed on requirement to attach EMM	PHHO	12th December 2017 (Team meeting)		

Audit Review						Assurance Level
2017/18 - Public Health (E1702)						Reasonable
Recommendation	Priority	Agreed action	Responsible Manager	Date	Status	
Management should enquire if it is possible to have a prompt within Flare to remind officers to check the Primary Authority Register to see if the business has a primary authority. This process should be documented within the relevant procedure.	M	Primary Authority Flare action diary code to be added to appropriate enforcement record templates, including accidents. This will act as a prompt to check. Amend incident recording procedure.	PHHO	31st December 2017	Management statement to be issued Q2 2018/19	
The procedure / guidance for completing the annual return should be brought up to date to enable other officers to accurately complete the return if required.	M	LAE1 return procedure to be developed. Staff trained/briefed on the procedure.	PHHO	31st January 2017	Management statement to be issued Q2 2018/19	
A matrix should be introduced to record the reason why a decision has been made not to go ahead with court proceedings. Details of this should also be recorded on Flare. This process should also be included in the accident and reporting procedure and the Enforcement Policy.	M	Enforcement decision matrix to be added to the Health & safety Enforcement Policy	PHHO	01/02/2018	Management statement to be issued Q2 2018/20	
Management should review how sensitive information is electronically stored and restrict access where needed.	M	Only Groups responsible for Enforcement can access Environmental Health Flare. Other servers can not be further restricted. All Groups with access understand need for confidentiality. We have considered further restrictions but concluded that the disruption to good working practices will outweigh any benefit. Clean Neighbourhoods work closely with Regulatory Services on matters such as noise and fly tipping, it would not be helpful to restrict access.	Regulatory Services Manager	Review Completed	Management statement to be issued Q2 2018/19	
		Flare audits track officer modifications made to databases – the new version of Flare, which should be operational by April 2018, may also allow audits of documents being opened / viewed.				
		A full review of the digital storage within Regulatory Services is being undertaken and any sensitive data stored incorrectly will be moved to the N drive and coded appropriately.				

# Audit of Flexitime and Toil

Draft Report Issued: 2<sup>nd</sup> February 2018  
Director Draft Issued: 26<sup>th</sup> February 2018  
Final Report Issued: 5<sup>th</sup> March 2018



## Audit Report Distribution

<b>For Action:</b>	Service Support Supervisor Administrative Assistant HR Manager
<b>For Information:</b>	Service Support Team Leader Chief Finance Officer Chief Executive Principal Auditor Deputy Chief Finance Officer
<b>Audit Committee:</b>	The Audit Committee, which is due to be held on 19/3/18 will receive summary findings and recommendations from this audit.



## Executive Summary

### 1.0 Background

- 1.1. This report summarises the findings from the audit of Flexitime and Toil. This was an internal audit review included in the 2017/18 risk-based audit plan agreed by the Audit Committee on 16<sup>th</sup> March 2017.
- 1.2 The Flexi Time and Toil Schemes are both in place to enable staff to have more flexibility on how they work to meet both their own needs and those of the Council. The Flexitime Scheme is a discretionary benefit, offered to employees whose working arrangements allow for an element of flexibility. It is not suitable for employees whose duties require a fixed working pattern.
- 1.3 The City Council has had a flexi scheme for many years but different teams had developed different ways of interpreting it, which led to issues about how fairly the scheme has operated. In 2013 the scheme was fully reviewed and is now administered by the Service Support Team.

### 2.0 Audit Approach

#### Audit Objectives and Methodology

- 2.1 Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems.
- 2.2 A risk based audit approach has been applied which aligns to the five key audit control objectives (see section 4). Detailed findings and recommendations are reported within section 5 of this report.

#### Audit Scope and Limitations.

- 2.3 The Audit Scope was agreed with management prior to the commencement of this audit review. The Client Lead for this review was the Service Support Supervisor and the agreed scope was to provide independent assurance over management's arrangements for ensuring effective governance, risk management and internal controls of the following scope areas:
  - Risk 1 – Abuse, inconsistent approach and potentially fraudulent claims due to lack of awareness and non-adherence to policy.
  - Risk 2 – Health and wellbeing of staff is compromised, which could result in financial and/or reputational damage to the Council due to non-compliance with employment legislation.
  - Risk 3 – Processes are time consuming resulting in excessive cost to accurately maintain the records.

- Risk 4 – The machinery/system is out dated or limited, resulting in a lack of resilience.

2.4 There were no instances whereby the audit work undertaken was impaired by the availability of information.

### 3.0 Assurance Opinion

3.1 Each audit review is given an assurance opinion and these are intended to assist Members and Officers in their assessment of the overall level of control and potential impact of any identified system weaknesses. There are 4 levels of assurance opinion which may be applied. The definition for each level is explained in **Appendix B**.

3.2 From the areas examined and tested as part of this audit review, we consider the current controls operating within Flexitime and Toil to provide **Reasonable assurance**.

*Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.*

### 4.0 Summary of Recommendations, Audit Findings and Report Distribution

4.1 There are two levels of audit recommendation; the definition for each level is explained in **Appendix C**.

4.2 There are **3** audit recommendations arising from this audit review and these can be summarised as follows:

Control Objective	High	Medium
1. <b>Management</b> - achievement of the organisation's strategic objectives achieved (see section 5.1)	-	-
2. <b>Regulatory</b> - compliance with laws, regulations, policies, procedures and contracts (see section 5.2)	-	2
3. <b>Information</b> - reliability and integrity of financial and operational information (see section 5.3)	-	1
4. <b>Security</b> - safeguarding of assets (see section 5.4)	-	-
5. <b>Value</b> – effectiveness and efficiency of operations and programmes (see section 5.5)	-	-
<b>Total Number of Recommendations</b>	-	<b>3</b>

**4.3** Management response to the recommendations, including agreed actions, responsible manager and date of implementation are summarised in **Appendix A**.

**4.4 Findings Summary (good practice / areas for improvement):**

Concise summary of good practice and improvements identified (summary of findings from below)

Service Support staff have a good knowledge of the policy and apply this when processing adjustments to the flexi system. In addition, they are devising new controls to keep managers regularly up-dated with balances within their team.

There are variations in practice and the policy lacks clarity in some areas, resulting in inconsistent interpretations of the policy within the Council.

The Flexitime and Toil Policies support the health and wellbeing of the staff. Employment legislation is complied with through the policies and the administration of them.

The time taken to process the administration of the flexi system is monitored and the information is available to management on request. The time is not considered excessive.

The Zeus Clocking in machines are still provided by the supplier. There are also machine spare parts within the Authority. There are no short term issues regarding its resilience.

**Comment from the Chief Finance Officer**

A good report by the internal audit team which has highlighted some inconsistencies in the use of flexitime and TOIL, one of the main reasons for the fundamental review of the policy in 2013. Any recommendations will be followed up by the relevant Service Manager/Officer and implemented within the agreed timescales.

## 5.0 Audit Findings

### 5.1 Management – Achievement of the organisation’s strategic objectives

#### Audit Findings

**5.1.1** There are policies in place for the flexi and toil systems, they are available to managers and staff via the Council’s intranet. The Policies were fundamentally reviewed in 2013 but have not been reviewed recently; however, the HR team has scheduled full reviews in 2018/19. It is advised that this piece of work should be picked up as soon as is possible to address the issues raised within this report. The HR Manager has advised that there are other significant workloads within the HR team including GDPR and implementation of Office 365. The review of the flexi policy is therefore unlikely to be picked up in the first half of this year.

**5.1.2** The Council has a confidential reporting policy in place that enables staff to report any concerns they have, including misuse of the flexi system.

### 5.2 Regulatory – compliance with laws, regulations, policies, procedures and contracts

#### Audit Findings

**5.2.1** Officers within Service Support process all requested adjustments to officer’s flexi records. Adjustments are received from the authorising line managers to the shared “Flexi” email account. Staff are experienced and trained within the team prior to processing adjustments. Support Services monitor the flexi adjustments and save the emails for evidence of authorised changes.

**5.2.2** A sample of amendments was reviewed to ensure they were all in line with policy and authorised appropriately. Testing concluded there are some variations outside of policy, these include:

- A case of an employee being credited for a medical appointment on a non-work day;
- Deductions automatically being made for lunch breaks being re-credited;
- Employees claiming traveling time for medical appointments;
- Transfer to flexi bank as the employee had reached the balance limit and would have lost credit for hours worked. This is not the agreed policy for utilising the flexi-bank (which should be approved in advance)

**5.2.3** Service Support staff challenge any deviations from policy whilst processing adjustments. It is acknowledged that they are a processing team but the queries

and challenge help ensure consistency to adjustments. Any adjustments that they feel are outside of policy are referred to HR.

- 5.2.4** It is recognised that minor variations to policy are always likely to be a common event and none of the issues identified above were deemed a significant abuse of the system. However, it is advisable that regular reminders are issued to all staff to ensure the policy is adhered to.
- 5.2.5** There are inconsistent approaches applied to medical appointments across the authority, with some managers allowing for them to be taken in working time and others not.
- 5.2.6** A new Special Leave policy is now in place following approval by the Employment Panel. This policy will address the current discrepancies with medical appointments. The policy sets out a time allowed for all medical appointments outside of the Equality Act. A HR Advisor is carrying out a presentation of the policy at the March 2018 Manager's briefing. This guidance should be incorporated into the Flexi policy when it is next reviewed.
- 5.2.7** Flexi bank records reviewed were all authorised by Directors. Many of the adjustments to the flexi bank were found to be transferring hours to the flexi bank to prevent staff losing credit for hours worked outside the stated limits. Discussions with Service Support staff and a review of flexi-bank records indicated this practice was prevalent.
- 5.2.8** The Flexi Policy states flexi bank accounts "*must be approved in writing by the Director **before the hours are worked**. When Flexibank hours are approved it must also be agreed by the Director, Manager and Employee when the accrued hours will be taken. Time over 15 hours will be 'banked' and recorded on the Directorate Flexi bank Form*" In most cases there was no prior approval.

**Recommendation 1: The use of the Flexi bank procedures should be reviewed to ensure they are applied consistently.**

- 5.2.9** Toil balances were reviewed and although some were outside of the policy's limits line managers were aware of the situation and have authorised the exceptions. The HR team is also aware of the exceptions and is working with managers to resolve long standing high balances. There are two cases of significantly large toil balances, both have suitable approval and the relevant directors have confirmed they are aware of and working to resolve the issue.

**5.2.10** Services Support are reinstating a form to send to all managers monthly, advising them of current balances and deadlines to ensure balances are reduced on a timely basis. Although the current policy states all balances will be lost after 3 months in practice this does not happen. HR Services advised the reminders and the loss of credit balances lost after 3 months would help with the management of TOIL and flexi bank. Often people with high flexi credit balances also have high flexi bank and TOIL balances. There is a risk of breaching the national minimum wage and also working time regulations, as well as an increased likelihood of sickness absence as staff not looking after their own health and wellbeing.

**5.2.11** Management automatically receive a flexi report twice a week from the Flexi system so are able to confirm adjustments are correctly processed. There is an option for daily reports to be issued if management have any concerns.

**5.2.12** The system only records start and finish times that are within the agreed working hours. Officers put through adjustments (with Manager approval) for any time outside core hours and all differences are transferred to the Toil balance.

**5.2.13** The system weakness is unable to flag a warning that officers have worked less than the minimum hours e.g. finishing prior to 2pm without booking leave. However, managers should be checking flexi records twice a week to ensure the policy is adhered to. This was identified as an issue over the Christmas period and HR were informed and issued a corporate reminder to all staff regarding the policy. It is advised that if the system is updated consideration should be given to increasing controls to automatically flag any bookings outside of the policy.

**5.2.14** There were instances identified of employees claiming in excess of 10 hours (the maximum daily hours allowed to be claimed) for courses and training. Although the policy permits this, the determining factor is when the travel takes place and/or if the travel would usually necessitate an overnight stay. Staff are suggesting the course could necessitate an overnight stay, so are claiming the travelling time.

The policy states:

*“Employees attending courses, seminars and conferences will be credited with a standard working day of 7 hours 24 minutes. Any time beyond this amount spent travelling to or from events can be claimed up to a maximum of 10 hours. This also applies to travel on the day before or after an event subject to the total time for the day, including time actually worked on those days, not exceeding 10*

hours.

*In the case of travelling on Saturdays, Sundays or holidays the maximum allowance will be the actual time spent travelling. Employees who attend a course, seminar or conference which would usually necessitate an overnight stay due to the distance of the event from Carlisle and who travel and return on the same day, thus saving the City Council the cost of an overnight stay, can also claim the actual time spent travelling. In these cases employees can accrue TOIL for any time over 10 hours and this must be approved by the line manager in advance.”*

- 5.2.15** There is a need to define what is meant by “necessitate an overnight stay” to ensure policy is consistently applied.

**Recommendation 2 – The flexi policy should more specifically define what can and cannot be claimed with regards to travel for courses and training.**

### 5.3 **Information** – reliability and integrity of financial and operational information

#### **Audit Findings**

- 5.3.1** Three debit flexi balances were found to be outside of policy, with negative balances in excess of 9 hours being in place for more than 3 months. One of the managers advised they were aware of the issue and that the deficit was being reduced. There was evidence that the negative balances have been flagged with the relevant line managers. As above, Service Support are current rolling out a new monthly report to highlight balances outside of policy.
- 5.3.2** There is a concern that managers will not always take action to address non-compliance, as they already get reports twice a week. If employees are found to be outside the policy for a defined time the reports should be escalated to a Senior Manager and HR to ensure that line managers are addressing non-compliance, once it is confirmed that all adjustments with the Service Support Team are processed for that period.

**Recommendation 3 – A further report should be sent to HR when staff are continually outside of policy once it is ensured that that all adjustments within the Service Support Team are processed.**

#### 5.4 **Security** – Safeguarding of Assets

##### **Audit Findings**

- 5.4.1** The equipment used to process the swipe cards and record information to the electronic system is still supported by the provider. In addition, the Council has spare parts to repair equipment. There are no short term issues regarding the equipment's resilience.

#### 5.5 **Value** – effectiveness and efficiency of operations and programmes

##### **Audit Findings**

- 5.5.1** Service Support Supervisor monitors the time spent on administration of the flexi system, to ensure that the time is reasonable. The time spent information is retained for management.
- 5.5.2** The system is reliant on the completion of adjustments and authorisation by line managers and then the Service Support Team processing, monitoring and challenging adjustments. This ensures that the adjustments are compliant with policy and that a consistent approach is applied across the Authority. It is advised that if the system is updated consideration should be given to introducing to a less manual system with improved controls to help ensure managers comply with Policy.



## Appendix A – Management Action Plan

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
<b>Recommendation 1:</b> The use of the Flexi bank procedures should be reviewed to ensure they are applied consistently.	Priority M	<b>Risk Exposure</b> Abuse, inconsistent approach and potentially fraudulent claims due to lack of awareness and non-adherence to policy	Use of flexi bank procedures will be reviewed alongside the flexi policy and additional guidance issued to Managers and staff, if appropriate.	HR Manager	By March 2019
<b>Recommendation 2:</b> The policy should be more specific with regards to guidance for travel for courses / training.	Priority M	<b>Risk Exposure</b> Abuse, inconsistent approach and potentially fraudulent claims due to lack of awareness and non-adherence to policy	Existing guidance for travel time, expenses and mileage will be updated for Managers and staff to supplement the current Flexitime scheme.	HR Manager	By March 2019
<b>Recommendation 3:</b> A further report should be sent to HR when staff are continually outside of policy once it is ensured that that all adjustments within the Service Support Team are processed.	Priority M	<b>Risk Exposure</b> Abuse, inconsistent approach and potentially fraudulent claims due to lack of awareness and non-adherence to policy	Report will be sent out following the period end of the 15 <sup>th</sup> March 2018. Highlighted all officers outside of policy.	Service Support Supervisor	End of March 2018

## Appendix B

### Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

	Definition:	Rating Reason
<b>Substantial</b>	There is a sound system of internal control designed to achieve the system objectives and this minimises risk.	<p>The controls tested are being consistently applied and no weaknesses were identified.</p> <p>Improvements, if any, are of an advisory nature in context of the systems and operating controls &amp; management of risks.</p>
<b>Reasonable</b>	There is a reasonable system of internal control in place which should ensure that system objectives are generally achieved, but some issues have been raised which may result in a degree of risk exposure beyond that which is considered acceptable.	<p>Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently developed.</p> <p>Recommendations are no greater than medium priority.</p>
<b>Partial</b>	The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses which have been identified and the level of non-compliance and / or weaknesses in the system of internal control puts the system objectives at risk.	<p>There is an unsatisfactory level of internal control in place as controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified.</p> <p>Recommendations may include high priority matters for address.</p>
<b>Limited / None</b>	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.	<p>Significant non-compliance with basic controls which leaves the system open to error and/or abuse.</p> <p>Control is generally weak/does not exist. Recommendations will include high priority matters for address. Some medium priority matters may also be present.</p>

## Appendix C

### Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are two levels of audit recommendations used; high and medium, the definitions of which are explained below.

	Definition:
<b>High</b>	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
<b>Medium</b>	Some risk exposure identified from a weakness in the system of internal control

The implementation of agreed actions to Audit recommendations will be followed up at a later date (usually 6 months after the issue of the report).



# **Audit of Arts Centre Carlisle Old Fire Station (OFS)**

**Draft Report Issued: 19 February 2018**

**Director Draft Issued: 26 February 2018**

**Final Report Issued: 05 March 2018**



## Audit Report Distribution

<b>Client Lead:</b>	Contracts & Community Services Manager
<b>For Information:</b>	Deputy Chief Executive Chief Executive (Final Report)
<b>Others:</b>	Community Development Officer Community Involvement Officer Administrative Assistant
<b>Audit Committee:</b>	The Audit Committee, which is due to be held on 19 March 2018, will receive a copy of the report.

### Executive Summary

#### 1.0 Background

- 1.1. This report summarises the findings from the audit of the Old Fire Station Arts Centre (OFS). This was an internal audit review included in the 2017/18 risk-based audit plan agreed by the Audit and Assurance Committee on 16<sup>th</sup> March 2017.
- 1.2 The Council has adapted the OFS to provide an Arts and Entertainment venue with four main spaces including a ground floor foyer with box office, café-bar, plus a main auditorium for live music, comedy, theatre and exhibitions accommodating around 250 seated or 350 standing. There is a first floor studio space for workshops and conferences, plus an additional first floor studio. The remaining space includes smaller rooms which are being used for offices, rehearsals, changing rooms and studios for rent.
- 1.3 This is a relatively new area for the Council and has not previously been audited. Internal audit recognises that the team are working hard to establish the OFS as a successful venue. However there is a need to focus on the risks identified during this review and make sure that they are appropriately managed.
- 1.3 The Council has a contract with a third party provider to manage the café-bar 'Mcgrews'.
- 1.4 The OFS objectives align and support the Council's Plan in relation to the development of the arts and culture facilities to support the health and wellbeing of residents. It also supports business growth skills development to improve opportunities and economic prospects for the people of Carlisle and promotes Carlisle regionally, nationally as a place with much to offer, full of opportunities and potential.

#### 2.0 Audit Approach

##### Audit Objectives and Methodology

- 2.1 Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems.
- 2.2 A risk based audit approach has been applied which aligns to the five key audit control objectives (see section 4). Detailed findings and recommendations are reported within section 5 of this report.

### Audit Scope and Limitations.

- 2.3 The Audit Scope was agreed with management prior to the commencement of the audit review. The Client Lead for this review was the Contracts and Community Services Manager and the agreed scope was to provide independent assurance over management's arrangements for ensuring effective governance, risk management and internal controls of the following scope areas:
- Risk 1- *Core Council priorities are not achieved / supported because the Arts Centre's objectives are not clearly defined, approved, aligned and communicated and / or insufficient monitoring of the performance of the centre.*
  - Risk 2 - *Failure to meet Council's procedures / guidance on H & S for the Arts Centre leading to staff and members of the public being put at risk.*
  - Risk 3 - *Safeguarding of assets is not effective because unauthorised individuals can access the premises / premises not secured and / or inadequate safeguarding arrangements (such as insurance).*
  - Risk 4 – *Poor quality information resulting in incomplete financial records and poor performance.*
  - Risk 5 - *Reputational damage due to failure to manage above risks appropriately.*
- 2.4 There were no instances whereby the audit work undertaken was impaired by the availability of information.

### **3.0 Assurance Opinion**

- 3.1 Each audit review is given an assurance opinion and these are intended to assist Members and Officers in their assessment of the overall level of control and potential impact of any identified system weaknesses. There are 4 levels of assurance opinion which may be applied. The definition for each level is explained in **Appendix B**.
- 3.2 From the areas examined and tested as part of this audit review, we consider the current controls operating within the Arts Centre – The Old Fire Station (OFS) provide **partial assurance**.

*Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.*

### **4.0 Summary of Recommendations, Audit Findings and Report Distribution**

- 4.1 There are two levels of audit recommendation; the definition for each level is explained in **Appendix C**.



- 4.2 There are fifteen audit recommendations arising from this audit review and these can be summarised as follows:

Control Objective	High	Medium
1. <b>Management</b> - achievement of the organisation's strategic objectives achieved (see section 5.1)	-	2
2. <b>Regulatory</b> - compliance with laws, regulations, policies, procedures and contracts (see section 5.2)	2	6
3. <b>Information</b> - reliability and integrity of financial and operational information (see section 5.4)	1	0
4. <b>Security</b> - safeguarding of assets (see section 5.3)	1	3
5. <b>Value</b> – effectiveness and efficiency of operations and programmes (see section 5.5)	-	-
<b>Total Number of Recommendations</b>	<b>4</b>	<b>11</b>

- 4.3 Management response to the recommendations, including agreed actions, responsible manager and date of implementation are summarised in Appendix A.

#### 4.4 Findings Summary:

The OFS's service objectives are reviewed quarterly and align and support the Council's plan. KPI's have recently been implemented to aid the service and a £39,000 grant has been successfully secured from the Arts Council. The Council has a contract with McGrew's for the provision of a café and bar services at the OFS.

The OFS is a relatively new venture for the Council and it is recognised that the team are working hard to make this a success. However, a number of issues were identified during the audit review that require attention.

Management should strengthen controls to ensure the safety of staff and the public. In particular action is required to address outstanding issues on fire safety, including completion of a safety assessment and implementing and enforcing procedures.

There is a need to review arrangements over income, to ensure it is retained / handled securely, in line with insurance requirements. In addition, building security processes should be reviewed and adherence to controls needs to be maintained.

Action should be taken to address casual staff, including reviewing their employment status and ensuring that DBS checks are performed.

## **D1701 Arts Centre – The Old Fire Station (OFS)**

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Management also need to ensure that formal contract monitoring arrangements are introduced and tighter controls are implemented in relation to income recording, monitoring and events.

### **Comment from the Deputy Chief Executive.**

The findings of this report have already proved very useful to the Service Manager and the OFS team. A significant number of the recommendations have already been acted on and improvements made to the facilities systems.

During this next period (April – June) the team will focus on meeting all other recommendations.

Where the report recommendations fall outside of the teams direct control (e.g. with property services) I will ensure that the recommendations for improvement are responded to with clear actions.

## 5.0 Audit Findings

### 5.1 Management – Achievement of the organisation's strategic objectives

#### Audit Findings

- 5.1.1** The OFS's service objectives are included in the approved Service Plan 2017. The objectives align and support the Council's Plan in relation to the development of the arts and culture facilities to support the health and wellbeing of our residents. It also supports business growth skills development to improve opportunities and economic prospects for the people of Carlisle regionally, nationally as a place with much to offer, full of opportunity and potential.
- 5.1.2** The service plan is reviewed quarterly and is included in the quarterly performance reports.
- 5.1.3** During the audit it was noted that the first draft of the business plan has been delayed and is expected to be completed by the end of March 2018.
- 5.1.4** Service risks are recorded and managed through the City Council's monitoring software Project Server. The Contracts & Community Services Manager reported that he had reviewed the risks last summer, however project server records that the risks were last reviewed / modified on 6 March 2017. Audit established that project server does not automatically update this field when risks are reviewed / modified. The reviewer needs to manually amend this field.
- 5.1.5** If risks are not regularly monitored there is a risk that Council priorities are not achieved / supported.
- Recommendation 1 – Management should ensure that service risks are reviewed in accordance with the Council's Risk Management Policy. When reviewed the reviewed / modified field on project server should be manually updated. (M)**
- 5.1.6** The Contracts & Community Service Manager monitors the budget on a monthly basis.
- 5.1.7** KPI's have recently been approved and introduced for the service.
- 5.1.8** During the audit it was noted that there was a lack of documented procedures / guidance in relation to the following areas:  
-the process for monitoring and reporting KPI's;  
-the process for booking contentious and high risk shows, this should include

retaining evidence that the process has been completed for such events;  
-for all aspects of events, for example booking declining, postponing, cancelling, & managing, referral of events to promoters, risk assessments, staffing events, public liability insurance etc;  
-OFS monitoring and administration tasks;  
-building & maintenance checks and defects;  
-health & Safety checks;  
-CCTV.

**5.1.9** If procedures and processes are not clearly documented there is a risk that the OFS objectives are not achieved as officers may be unsure of their roles and responsibilities.

**Recommendation 2 – Management should ensure that procedures / guidance is agreed and documented for all areas of the service including areas identified within this audit review. All guidance / procedures should be dated and version controlled. (M)**

## **5.2 Regulatory – compliance with laws, regulations, policies, procedures and contracts**

**5.2.1** There are no arrangements in place for management to receive regular assurances that statutory health and safety and building maintenance checks are being undertaken at the OFS. For example fire extinguishers / fire equipment record log sheet detailed no testing or checks had been completed.

**5.2.2** There are no arrangements in place for management to receive confirmation that defects have been fixed at the OFS.

**5.2.3** There is a risk that health and safety concerns or other building issues are not identified and rectified on a timely basis.

**Recommendation 3 – Management should ensure that arrangements should be put in place to ensure that management receive regular assurance that all defects have been fixed and that statutory health and safety and building maintenance checks are being undertaken at the OFS. Management should consider how these checks and their outcomes should be documented and reviewed and that any remedial actions are undertaken. (M)**

- 5.2.4** Work in progress includes a planned emergency evacuation drill to coincide with the Council's emergency planning exercise which is due to take place in March 2018. The team are working through reading and signing off safe system of work sheets. For example: electricity, handling materials, fire precautions etc.
- 5.2.5** Risk assessments for each event are pre-prepared, one for standing events and one for seated. The appropriate risk assessment should form part of the supervisor event file for each event. A random sample of eight events were tested and a risk assessment was missing from one event file and another file had the incorrect risk assessment.
- 5.2.6** Failure to meet Council's procedures / guidance on H & S for the Arts Centre leading to staff and members of the public being put at risk.

**Recommendation 4 – Management should ensure that all event files include the appropriate risk assessment. (M)**

- 5.2.7** Two out of four job descriptions (JD) for the OFS team need to be brought up to date as they both make reference to a previous directorate and neither JD makes reference to specific responsibilities for the OFS.
- 5.2.8** The audit highlighted two casual posts that were recruited via word of mouth in September 2016. In the period July to December 2017 the total number of hours worked for both posts equals in excess of 1,371 hours. HR are currently looking into this as the number of hours work regularises the arrangement with workers rather than being on an ad hoc basis.
- 5.2.9** There is a reputational risk to the Council if officers do not follow HR policies and procedures / guidance.

**Recommendation 5 – Management should seek advice from HR with reference to the two casual posts. (H)**

- 5.2.10** Examples were noted during the audit where two family members were working in the same service area and an officer was included on the guest list for a recent event. None of these had been declared and recorded on the appropriate documentation. There is a reputational risk to the Council if officers do not declare and resolve any interests, relationships, gifts and hospitality.

**Recommendation 6 – Management should ensure that officers declare and resolve any interests, relationships, gifts and hospitality as per the requirement in the Officers' Code of Conduct. (M)**

**5.2.11** A review of the electronic training record highlighted that not all of the OFS team have received the appropriate training for example first aid training.

**5.2.12** Currently 1 to 1's are not completed on a regular basis and the last team appraisal completed in March 2017 could not be located during the audit review. As a result there is a risk of Council objectives not being delivered due to roles and responsibilities not being clearly defined.

**Recommendation 7 – Management should ensure the following:**

**-that the OFS team including casuals and McGreys staff has the appropriate training to carry out their roles safely and effectively;**

**-regular formal 1 to 1's are undertaken for the OFS team and that annual appraisals are documented and retained. (M)**

**5.2.13** Not all of the OFS team have a valid enhanced Disclosure & Barring Service (DBS) check. As a result there is a risk of reputational damage to the Council as staff may work in an environment with vulnerable people.

**Recommendation 8 - Management should ensure there is a system in place to ensure that all appropriate officers have a valid enhanced DBS check, including McGreys staff. (M)**

**5.2.14** A Health and Safety Audit was completed in August 2017. Several recommendations which were made in this report have yet to be implemented and remain work in progress. An email was sent out to the responsible officers in December 2017 asking for their feedback to be submitted at the start of 2018.

**5.2.15** A fire risk assessment has not been completed since 2015. In the OFS Site Safety Inspection and Findings Report dated 15 August 2017, this recommends that a Fire Risk assessment is subject to annual reviews and that this has been passed onto the buildings team to arrange for Fire Risk assessment to be reviewed and updated by a competent person within the next 6 months. At the time of the audit this action remains outstanding.

**5.2.16** The fire alarm activated during an event in December 2017 at the OFS, however it could not be clearly heard over the music. After further investigation it was found that the alarm panel does not disconnect the amps on stage, but does stop the music in McGreys. The supervisor on the evening made the decision not to evacuate as it was concluded the alarm had been activated by the haze machine. The buildings team are currently looking for a plan to resolve this. It was noted on 17 January 2018 that neither the Contracts & Community Services Manager nor the Safety, Health & Environmental Manager was aware of this incident as an Accident Reporting Form had not been completed.

**5.2.17** Failure to meet Council's procedures / guidance on health & safety for the OFS may lead to staff and members of the public being put at risk.

**Recommendation 9 - Management should ensure that all outstanding fire issues are satisfactory resolved as soon as possible. This should include the following:**

- That a Fire Risk assessment is reviewed and updated by a competent person within the next few months;**
- That supervisors are adhering to their responsibilities at each event;**
- The fire alarm should be fixed to ensure that on activation everyone inside the OFS can hear it to ensure a safe evacuation can be undertaken;**
- OFS management are notified of any future incidents;**
- An accident reporting form is completed when an incident occurs and the Health, Safety & Environmental Manager notified;**
- Management should discuss and agree if the staff should automatically evacuate the premises if the fire alarm is activated. (H)**

**5.2.18** There is a signed contract between the Council and McGrew's to provide the café and bar services at the OFS.

**5.2.19** A brief review of this contract identified an error with regard to payment of a percentage of McGrew's income / profit. The contract should be amended to record what was originally agreed for the payment of a percentage of profit in excess of £30,000.

**5.2.20** There is no formal contract monitoring in place, informal meetings are held twice yearly between the Contracts & Community Services Manager and McGrew's. Management have no assurance that McGrew's is adhering to his contractual responsibilities. For example: each of the service providers personnel is suitably qualified, adequately trained, all comply with all of the policies of the Council and subject to a valid enhanced disclosure check where appropriate.

**5.2.21** As part of the contract McGrew's is required to organise and manage events. It was noted that none of the team have had any stewarding training. There is currently no requirement for these events to be run and managed using the same or similar processes that the Council uses, for example: pre gig check list, appropriate risk assessment etc.

**5.2.22** There is a risk of reputational damage to the Council due to a failure to manage the contract appropriately.

**Recommendation 10 - Management should ensure the following:**

- formal documented contract management meetings are regularly held to gain assurance that McGrew's is adhering to the agreement;**
- that evidence is provided to give assurance that conditions of the contract are being followed. For example: that the service providers personnel is suitably qualified, adequately trained, all comply with all of the policies of the Council, are subject to a valid enhanced disclosure check where appropriate and information is received on a timely basis.**
- procedures / guidance should be agreed, documented and implement to ensure consistency between Council and McGrew's events. (M)**

**5.2.23** There is currently no contract or framework agreement in place with event promoters, as an agreement is completed for each event. Management should seek advice from the Finance Officer (Procurement) to discuss if a formal contract or framework agreement for events organised by promoters needs to be explored.

### **5.3 Information – reliability and integrity of financial and operational information**

**5.3.1** A sample of event files were tested during the audit and the following was noted:

- the number of tickets sold as per the monthly remittances did not agree to the operational spreadsheet which is maintained by the team;
- the Tourist Information Centre's (TIC) 5% commission fee has not been deducted from the total income recorded on the operational spreadsheet;
- the above errors resulted in an overall difference in income of £666.84,
- income detailed on the monthly remittances agreed to bank statements and had been correctly coded in the general ledger.
- monthly remittances (from McGrew's) are not received and subsequently invoices raised on a timely basis;
- a sample of tenant invoices were successfully traced to the bank statements and general ledger;
- a sample of agent and act booking fees were successfully traced to bank statements and general ledger;
- there was no signed agreement between the Council and the artist / promoter on file for one test and the agreement on two further files had not been appropriately signed;
- there are no documented procedures / guidance in relation to administration tasks or events (see recommendation 2);
- the supervisor pre-gig checklist was not signed on one file.

**5.3.2** Poor quality information resulting in incomplete financial records and poor performance.



**Recommendation 11 – Management should ensure the following:**

- that ticket sales and income are accurately recorded. This should include a review of the system and documenting it to ensure consistency;
  - that McGrews monthly remittances are received and subsequently invoices raised on a timely basis;
  - that event files are appropriately completed and contain the required paperwork.
- (H)**

## **5.4 Security – Safeguarding of Assets**

**5.4.1** The following weaknesses were noted during the audit review in relation to security of value and cash carrying:

- unsecured cash being left on a desk in the OFS office at the Civic Centre;
- cash is kept in a locked locker, however the key to the locker is retained in an unlocked desk drawer in the OFS office in the Civic Centre;
- no cash carrying log is maintained when officers carry cash to the Civic Centre or the bank;
- cash is not being signed for by McGrew's staff or Council officers when value is placed in or taken out of McGrew's safe, or when value is taken to the Civic Centre;
- a separate record of total value retained prior to banking is not currently being maintained;
- the till containing cash which is situated in the OFS box office was left with the key in the till drawer whilst the box office was unattended and unlocked. McGrew's was open to the public at this time;
- the team have not had any cash carrying or cash handling risk assessments undertaken nor do they have any related guidance or procedures.

**5.4.2** Safeguarding of value and assets is not effective because it is not held securely and can be accessed by unauthorised individuals.

**Recommendation 12 – Management should ensure the following:**

- A cash handling and cash carrying risk assessment be completed as soon as possible and guidance / procedures agreed and document;
- cash is held securely in line with insurance guidelines;
- a separate record is maintained of cash held;
- value should be signed for when handed over or received (recommended to have a cash handling logbook);
- the box office should be locked when unattended and the till key should not be left in the till;
- the store cupboards should be locked when unattended;
- meeting rooms should be locked when not in use. **(H)**

- 5.4.3** During the audit the following was noted in relation to general security at the OFS:
- The opening and closing procedure details both the OFS alarm code and access gate code;
  - The Emergency Evacuation Procedure points 1 & 2 do not refer to members of the public only staff. The procedures also do not include a search of the ground floor by a designated officer, only a search of the upper floor is mentioned;
  - There are no counter terrorism procedures/guidance, for example – Run-Hide-Tell, bag searches etc;
  - CCTV has recently been installed, however it was not possible to establish if all the cameras are in working order as not all officers have been fully trained on the system;
  - There is inadequate CCTV signage displayed at the OFS;
  - The key holder list is not current and none of the key holders have signed for their set of keys and as a result it is not possible to establish exactly how many sets of keys there are for the OFS;
  - on Audit's visit to the OFS it was noticed that the two cupboards used to store equipment were both unlocked and McGreaves was open to the public. One of the upstairs meeting rooms was also observed to be unlocked and was not in use.
- 5.4.4** Safeguarding of assets is not effective because unauthorised individuals can access the premises /premises not secured and / or inadequate safeguarding arrangements.

**Recommendation 13 – Management should ensure the following:**

- The Opening and closing procedures should be updated and should not detail the alarm code or the access gate code. These codes should be removed from the procedures as soon as possible;
- Counter terrorism procedure / guidance should be documented which should include Run-Hide-Tell and bag searches;
- Security procedures / guidance should be updated, documented, agreed and implemented to cover all aspects relating to OFS;
- that all applicable staff receive CCTV operational training;
- CCTV procedures / guidance should be agreed and documented as soon as possible. This should also include retention of data and what the process is if someone requested a copy of or to look at CCTV footage, for example the Police if an incident occurred;
- Liaise with legal to ensure that they have adequate CCTV signage displayed at the OFS;
- The CCTV should be regularly checked to ensure it is all in working order;
- the key holders list should be reviewed and brought up to date. All premises keys should be signed for;
- Rooms and cupboards containing equipment at the OFS should be locked when not in use. (M)

- 5.4.5** The only tenant has a signed lease agreement and completes the signing in sheet when on the premises.
- 5.4.6** At the time of the audit the annual check of the inventory was in the process of being reviewed, this is expected to be completed in early 2018.
- 5.4.7** The OFS is covered on the Council's buildings and contents insurance.
- 5.4.8** The Council's public liability insurance also covers amateur artists / bands.
- 5.4.9** A sample of eight event files was reviewed to see if the appropriate insurance policies were included, it was noted that on two files there was no copies of insurance documentation to cover the artist for the actual event. Management confirmed that they are currently in talks with the Council's insurers to see if it is possible for the Council to have a blanket cover which would cover the artist / band.
- 5.4.10** Safeguarding of staff and members of the public is not effective due to insufficient insurance cover.

**Recommendation 14 – Management should ensure that a copy of the appropriate valid insurance policy is on file for each event. (M)**

- 5.4.11** The Council's Data Protection membership is current.
- 5.4.12** Mailchimp is used for marketing the OFS and retains customer email addresses. The team were unsure how Mailchimp manage this information. As a result there is a risk of reputational damage due to possible breaches to the Council's data protection policy and procedures.

**Recommendation 15 – Management should establish how Mailchimp manages the information and ensure that this complies with the Council's Data Protection Policy and Procedures and appropriate guidance / procedures should be documented. (M)**

**5.5 Value – effectiveness and efficiency of operations and programmes**

- 5.5.1** The Council has successfully bid for a grant from the Arts Council for £39,000. This payment has been split into three and will be paid in the period from December 2017 to July 2018. The first payment of £19,500 was received on 8 December 2017.
- 5.5.2** The team have regular panel meetings to discuss events, these meetings are not always formally documented.
- 5.5.3** High value events are usually passed on to a promoter (SSD) to organise which reduces the financial risk to the Council as the promoter is solely responsible for the event.
- 5.5.4** If an event is declined, the reason for this is now recorded on a spreadsheet.
- 5.5.5** There are no procedures or guidance documented in relation to accepting / declining events or referring events to promoters. (See recommendation 2)

## Appendix A – Management Action Plan

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
<b>Recommendation 1:</b> Management should ensure that service risks are reviewed in accordance with the Council's Risk Management Policy. When reviewed the reviewed / modified field on project server should be manually updated.	Priority M	<b>Risk Exposure</b> If risks are not regularly monitored there is a risk that Council priorities are not achieved / supported.	<b>Key risks for the Old Fire Station are already recorded on project server in accordance with Council Risk Management policy and are reviewed quarterly along with other service risks. During the audit the most recent review of OFS risks had not included updating of the date field (which does not occur automatically). The subsequent quarterly review of these risks has updated the date field.</b>	Contracts and Community Services Manager	01 March 2018
<b>Recommendation 2:</b> Management should ensure that procedures / guidance is agreed and documented for all areas of the service including areas identified within this audit review. All guidance / procedures should be dated and version controlled.	Priority M	<b>Risk Exposure</b> If procedures and processes are not clearly documented there is a risk that the OFS objectives are not achieved as officers may be unsure of their roles and responsibilities.	<b>A number of key processes are already mapped and recorded. An internal review will be held within the team to identify a full list of processes to be recorded, and a programme of documenting these will be undertaken. Once completed all processes will be held on the OFS Intranet page and reviewed annually.</b>	Contracts and Community Services Manager	30 June 2018

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
<b>Recommendation 3:</b> Management should ensure that arrangements should be put in place to ensure that management receive regular assurance that all defects have been fixed and that statutory health and safety and building maintenance checks are being undertaken at the OFS. Management should consider how these checks and their outcomes should be documented and reviewed and that any remedial actions are undertaken.	<b>Priority</b> M	<b>Risk Exposure</b> Sanctions, litigation and reputational damage could arise from non-compliance with relevant legislation because staff are unaware of the required statutory health and safety and building maintenance checks to follow.	Property services are establishing a corporate approach to logging and tracking defects for all internal council clients. We will ensure that all defects are logged formally within this system once it is up and running.  Twice yearly maintenance meetings have also be established to review defects over the 6 month period, as well as identify required health and safety and maintenance checks over the coming period. These meetings will be documented and the notes shared between Contracts and Community Services and Property Services. The first meeting has already been scheduled for March 2018.	Senior Estates Surveyor & the Contracts and Community Services Manager	01 March 2018
<b>Recommendation 4:</b> Management should ensure that all event files include the appropriate risk assessment.	<b>Priority</b> M	<b>Risk Exposure</b> Failure to meet Council's procedures / guidance on H & S for the Arts Centre leading to staff and members of the public being put at risk.	All files will be individually reviewed at the closure of each event, with any discrepancies in paperwork collated into a monthly report and submitted to the Contracts and Community Services Manager.	Contracts and Community Services Manager	01 March 2018

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
<b>Recommendation 5:</b> Management should seek advice from HR with reference to the two casual posts.	<b>Priority</b> H	<b>Risk Exposure</b> There is a reputational risk to the Council if officers do not follow HR policies and procedures / guidance.	Advice has been sought from HR regarding the two casual posts. HR's advice will be followed in terms of recognising any employment rights casual staff have accrued (if this is the case) and if appropriate formal contracts will be established. Such liabilities can be met from within existing Old Fire Station budgets.	Contracts and Community Services Manager	01 March 2018
<b>Recommendation 6:</b> Management should ensure that officers declare and resolve any interests, relationships, gifts and hospitality as per the requirement in the Officers' Code of Conduct.	<b>Priority</b> M	<b>Risk Exposure</b> There is a reputational risk to the Council if officers do not declare and resolve any interests, relationships, gifts and hospitality.	All staff have been reminded of the obligations within the Officer Code of conduct. All hospitality will be recorded when given or received.	Contracts and Community Services Manger	01 March 2018

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
<b>Recommendation 7:</b> Management should ensure the following: - that the OFS team including casuals and McGrews staff has the appropriate training to carry out their roles safely and effectively; - regular formal 1 to 1's are undertaken for the OFS team and that annual appraisals are documented and retained.	<b>Priority M</b>	<b>Risk Exposure</b> There is a risk of Council objectives not being delivered due to roles and responsibilities not being clearly defined.	<p>A training schedule is held for all casual staff with all team members currently operational having completed the relevant training.</p> <p>We will ensure that McGrew's staff complete the same basis training required of the City Council's own supervisors on a rolling programme over the next 6 months.</p> <p>Notes of 1:1s will be formally documented via email and shared immediately with team members.</p> <p>Team appraisals are undertaken annually, we will ensure that the document is retained appropriately.</p>	Contracts and Community Services Manager	01 March 2018  30 June 2016  01 March 2018  01 March 2018
<b>Recommendation 8:</b> Management should ensure there is a system in place to ensure that all appropriate officers have a valid enhanced DBS check, including McGrews staff.	<b>Priority M</b>	<b>Risk Exposure</b> There is a risk of reputational damage to the Council as staff may work in an environment with vulnerable people.	<p>All city council establishment staff already who undertake work at the OFS have recorded DBS checks.</p> <p>Enhanced DBS checks have been requested immediately for casual supervisors who have not yet been DBS Checked.</p> <p>The Contracts &amp; Community Services Manager has confirmed that relevant McGrew's staff have had DBS checks, certificates will be held on file.</p>	Contracts and Community Services	01 March 2018  01 March 2018  01 March 2018



Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
<b>Recommendation 9:</b> Management should ensure that all outstanding fire issues are satisfactory resolved as soon as possible. This should include the following: -That a Fire Risk assessment is reviewed and updated by a competent person within the next few months; -That supervisors are adhering to their responsibilities at each event; -The fire alarm should be fixed to ensure that on activation everyone inside the OFS can hear it to ensure a safe evacuation can be undertaken; -OFS management are notified of any future incidents; -An accident reporting form is completed when an incident occurs and the Health, Safety & Environmental Manager notified; -Management should discuss and agree if the staff should automatically evacuate the premises if the fire alarm is activated.	<b>Priority</b> H	<b>Risk Exposure</b> Failure to meet Council's procedures / guidance on health & safety for the OFS may lead to staff and members of the public being put at risk.	A refreshed Fire Risk Assessment has been booked in with a competent provider and will be completed in the coming months.	Contracts and Community Services Manager	30 March 2018
			Work to recommission the fire alarm systems so the PA system is automatically disconnected, and that beacons are added to the wall, has already been commissioned. This is due for completion by the end of March 2018.		30 March 2018
			Staff have been reminded of the need to record alarms on a corporate incident report form as well as the fire log at the Old Fire Station. The supervisors' handbook has also been updated accordingly.		30 March 2018
			A refreshed evacuation procedure has already been produced which mandates that Supervisors evacuate the building whenever the alarm is activated (irrespective of if it is a known false alarm or not).		30 March 2018

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
<p><b>Recommendation 10:</b> Management should ensure the following:</p> <ul style="list-style-type: none"> <li>-formal documented contract management meetings are regularly held to gain assurance that McGrew's is adhering to the agreement;</li> <li>-that evidence is provided to give assurance that conditions of the contract are being followed. For example: that the service providers personnel is suitably qualified, adequately trained, all comply with all of the policies of the Council, are subject to a valid enhanced disclosure check where appropriate and information is received on a timely basis.</li> <li>-procedures / guidance should be agreed, documented and implement to ensure consistency between Council and McGrew's events.</li> </ul>	<p><b>Priority</b> M</p>	<p><b>Risk Exposure</b> There is a risk of reputational damage to the Council due to a failure to manage the contract appropriately.</p>	<p><b>Formal contract management meetings with the concession holder have now been diarised on a twice yearly basis in June and December (which fits with the concession holder's financial year and when his audited accounts are produced). These meetings will be formally documented.</b></p> <p><b>At the June meeting each year the conditions of contract will be reviewed and a list of required documents / evidence will be completed and submission requested. The December meeting will focus on a review of audited accounts.</b></p>	<p><b>Contracts and Community Services Manager</b></p>	<p><b>01 March 2018</b></p>

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
<b>Recommendation 11:</b> Management should ensure the following: - that ticket sales and income are accurately recorded. This should include a review of the system and documenting it to ensure consistency; - that McGrews monthly remittances are received and subsequently invoices raised on a timely basis; -that event files are appropriately completed and contain the required paperwork.	<b>Priority</b> H	<b>Risk Exposure</b> Poor quality information resulting in incomplete financial records and poor performance.	Updated processes are being established with McGrew's and the TIC to ensure that ticket sales are recorded consistently.  Updates to the reconciliation sheet will be accompanied with a date stamp and note for audit processes.  The remittance frequency with McGrews will be increased to monthly to ensure more timely payment  As per recommendation 4 - All files will be individually reviewed at the closure of each event, with any discrepancies in paperwork collated into a monthly report and submitted to the Contracts and Community Services Manager.		30 March 2018   01 March 2018  01 March 2018  01 March 2018

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
<b>Recommendation 12:</b> Management should ensure the following: -A cash handling and cash carrying risk assessment be completed as soon as possible and guidance / procedures agreed and document; -cash is held securely in line with insurance guidelines; -a separate record is maintained of cash held; -value should be signed for when handed over or received (recommended to have a cash handling logbook); -the box office should be locked when unattended and the till key should not be left in the till; -the store cupboards should be locked when unattended; -meeting rooms should be locked when not in use.	<b>Priority</b> H	Risk Exposure Safeguarding of value and assets is not effective because it is not held securely and can be accessed by unauthorised individuals.	<b>A cash handling and cash carrying risk assessment has already been produced in consultation with the Health and Safety Manager. Practice and processes have been updated to reflect this assessment.</b>	<b>Contracts and Community Services Manager</b>	<b>01 March 2018</b>

[illegible]

## D1701 Arts Centre – The Old Fire Station (OFS)

<p>CCTV footage, for example the Police if an incident occurred;</p> <p>-Liaise with legal to ensure that they have adequate CCTV signage displayed at the OFS;</p> <p>-The CCTV should be regularly checked to ensure it is all in working order;</p> <p>-the key holders list should be reviewed and brought up to date. All premises keys should be signed for;</p> <p>-Rooms and cupboards containing equipment at the OFS should be locked when not in use.</p>			<p><b>Checks of the CCTV systems will be added to supervisor's duties before each event, with faults to be reported within the event pack returned.</b></p> <p><b>The key holder list has been reviewed and updated. All key holders are being asked to sign to acknowledge key possession.</b></p> <p><b>All staff have been reminded of the need to keep rooms and cupboards locked. Periodic and random checks will be undertaken on this element of security with a quarterly report provided to the Contracts and Community Services Manager.</b></p>		<p><b>01 March 2018</b></p> <p><b>01 March 2018</b></p> <p><b>01 March 2018</b></p>
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Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
<b>Recommendation 14:</b> Management should ensure that a copy of the appropriate valid insurance policy is on file for each event.	<b>Priority</b> M	<b>Risk Exposure</b> Safeguarding of staff and members of the public is not effective due to insufficient insurance cover.	We will continue to pursue individual insurance policies for all acts and promoters in the immediate short term. The proposed file audit will offer assurance in this area.	Contracts and Community Services Manager	01 March 2018
<b>Recommendation 15:</b> Management should establish how Mailchimp manages the information and ensure that this complies with the Council's Data Protection Policy and Procedures and appropriate guidance / procedures should be documented.	<b>Priority</b> M	<b>Risk Exposure</b> There is a risk of reputational damage due to possible breaches to the Council's data protection policy and procedures.	Further advice will be sought from the legal team regarding the use of mail chimp immediately and in the light of GDPR.	Contracts and Community Services Manager	30 June 2018

## Appendix B

### Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

	Definition:	Rating Reason
<b>Substantial</b>	There is a sound system of internal control designed to achieve the system objectives and this minimises risk.	<p>The controls tested are being consistently applied and no weaknesses were identified.</p> <p>Improvements, if any, are of an advisory nature in context of the systems and operating controls &amp; management of risks.</p>
<b>Reasonable</b>	There is a reasonable system of internal control in place which should ensure that system objectives are generally achieved, but some issues have been raised which may result in a degree of risk exposure beyond that which is considered acceptable.	<p>Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently developed.</p> <p>Recommendations are no greater than medium priority.</p>
<b>Partial</b>	The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses which have been identified and the level of non-compliance and / or weaknesses in the system of internal control puts the system objectives at risk.	<p>There is an unsatisfactory level of internal control in place as controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified.</p> <p>Recommendations may include high priority matters for address.</p>
<b>Limited / None</b>	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.	<p>Significant non-compliance with basic controls which leaves the system open to error and/or abuse.</p> <p>Control is generally weak/does not exist. Recommendations will include high priority matters for address. Some medium priority matters may also be present.</p>



## Appendix C

### Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are two levels of audit recommendations used; high and medium, the definitions of which are explained below.

	Definition:
High	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
Medium	Some risk exposure identified from a weakness in the system of internal control

The implementation of agreed actions to Audit recommendations will be followed up at a later date (usually 6 months after the issue of the report).



# **Audit of Housing Benefits and Council Tax Reduction**

Draft Report Issued: 9<sup>th</sup> February 2018  
Director Draft Issued: 22<sup>nd</sup> February 2018  
Final Report Issued: 2<sup>nd</sup> March 2018



## Audit Report Distribution

<b>Client Lead:</b>	Benefits Manager
<b>Chief Officer:</b>	Chief Executive
<b>Others:</b>	Revenues & Benefits Operations Manager
<b>Audit Committee:</b>	The Audit Committee, which is due to be held on 19 <sup>th</sup> March will receive a copy of this report.

## 1.0 Background

- 1.1. This report summarises the findings from the audit of Housing Benefits and Council Tax Reductions. This was an internal audit review included in the 2017/18 risk-based audit plan agreed by the Audit Committee on 16<sup>th</sup> March 2017.
- 1.2. “The purpose of the Revenues & Benefits service is to provide an effective service, responsive to customer needs through the efficient use of resources and information technology. The key aim in relation to Housing Benefits and Council Tax Reduction is to pay the right benefit, at the right time, to the right person, whilst preventing fraud and error”. (*Extracted from Revenues & Benefits Service Plan 2017/18.*)
- 1.3. The administration of Housing Benefit claims for residents of the district is a statutory function of the Council, performed on behalf of the Department of Work & Pensions. Claims are either received within the Customer Contact Centre or electronically and are transferred to the City Council’s Housing Benefit database, Academy for processing by the Benefits team.

## 2.0 Audit Approach

### Audit Objectives and Methodology

- 2.1 Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation’s governance, operations and information systems.
- 2.2 A risk based audit approach has been applied which aligns to the five key audit control objectives (see section 4). Detailed findings and recommendations are reported within section 5 of this report.

### Audit Scope and Limitations.

- 2.3 The Audit Scope was agreed with management prior to the commencement of this audit review. The Client Lead for this review was the Benefits Manager and the agreed scope was to provide independent assurance over management’s arrangements for ensuring effective governance, risk management and internal controls of the following scope areas:
  - Failure to achieve business objectives due to insufficient governance;
  - Failure to adhere to Government Regulations;
  - Inaccurate payments due to errors;
  - Fraudulent claims undetected;
  - Fines and reputational damage resulting from loss / theft of personal information;
  - Failure to achieve business objectives due to system failures.
- 2.4 There were no instances whereby the audit work undertaken was impaired by the availability of information. (Or list any instances if information not provided during review)

### 3.0 Assurance Opinion

- 3.1 Each audit review is given an assurance opinion and these are intended to assist Members and Officers in their assessment of the overall level of control and potential impact of any identified system weaknesses. There are 4 levels of assurance opinion which may be applied. The definition for each level is explained in **Appendix B**.
- 3.2 From the areas examined and tested as part of this audit review, we consider the current controls operating within Housing Benefits and Council Tax Reduction provides **Substantial assurance**.

*Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.*

### 4.0 Summary of Recommendations, Audit Findings and Report Distribution

- 4.1 There are two levels of audit recommendation; the definition for each level is explained in **Appendix C**.
- 4.2 There are 2 audit recommendations arising from this audit review and these can be summarised as follows:

Control Objective	High	Medium
1. <b>Management</b> - achievement of the organisation's strategic objectives achieved (see section 5.1)	-	1
2. <b>Regulatory</b> - compliance with laws, regulations, policies, procedures and contracts (see section 5.2)	-	-
3. <b>Information</b> - reliability and integrity of financial and operational information (see section 5.4)	-	-
4. <b>Security</b> - safeguarding of assets (see section 5.3)	-	-
5. <b>Value</b> – effectiveness and efficiency of operations and programmes (see section 5.5)	-	-
<b>Total Number of Recommendations</b>	<b>-</b>	<b>1</b>

- 4.3 Management response to the recommendations, including agreed actions, responsible manager and date of implementation are summarised in Appendix A.

**Findings Summary (good practice / areas for improvement):**

- 4.4 A strong system of internal control has been embedded within the Service area, including the establishment of good governance arrangements to ensure business objectives are achieved.
- 4.5 The Department has demonstrated a strong awareness of risk and mitigating strategies are embedded and monitored in line with Council's risk management procedures.
- 4.6 Guidance is available to ensure the team process claims accurately and quickly and an established and thorough quality assurance process is in place to review this.
- 4.7 Appropriate controls and checks have been implemented to help prevent and identify potential fraudulent activity and the systems have in-built resilience.
- 4.8 The only areas of improvement identified is there is a need to document the quality assurance procedures to ensure the process has an in-built resilience.
- 4.9 There is also a concern that there is no formal archiving and deletion of data within the electronic database. However, the Council is reliant on a software fix being developed by the provider. There is evidence that this is in hand, with the provider developing a new archiving tool to meet General Data Protection Requirements (GDPR). Once provided the Council will need to address this issue as a matter of urgency.

**Comment from the Chief Executive**

I thank Internal Audit for this Review. I look forward to the recommendation being implemented.

## 5.0 Audit Findings & Recommendations

### 5.1 Management – Achievement of the organisation's strategic objectives

- 5.1.1** There is an appropriate team structure in place and roles are defined in up-to-date job descriptions. The team structure is suitable for the needs and requirements of the business and is reviewed by the Revenues and Benefits Operation Manager and Benefits Manager on an ongoing basis.
- 5.1.2** There is a Service Plan in place for the full Revenues and Benefits service in line with corporate policy, which includes relevant information, objectives and priorities for the Revenues Department.
- 5.1.3** Formal monthly meetings are held by the Revenue and Benefits Management team, and the Benefits Manager and Benefit Team Leaders also meet weekly to discuss performance and any other arising issues. Team meetings are also held for the full department when considered necessary.
- 5.1.4** Performance of officers within the Benefits team is scrutinised on an ongoing basis. Rather than using the Council's Corporate appraisal process the team has recently adopted an alternative process, involving a series of self-assessments and workshops.
- 5.1.5** Training needs are identified on a regular basis and is provided to the team based on feedback from the Quality Assurance Officer. Training material is retained and made available to the full team via their shared drive.
- 5.1.6** Financial performance is monitored on a monthly basis by the Corporate Finance team. There are no budgetary concerns within the department.
- 5.1.7** An appropriate risk register has been established for the department, in line with corporate policy. A review of the register found that it contained relevant risks for the service and suitable mitigation strategies are in place for each risk. These are monitored on a timely basis.
- 5.1.8** The most significant risk to the department is the introduction of Universal Credit. There are suitable actions in place to ensure the authority is ready when this is rolled out.
- 5.1.9** During the audit the software provider for Academy (Capita) had declared a profit warning. Audit enquiries revealed the issue has been raised internally and actions had quickly been identified to monitor the situation. This supports the conclusion that the department has strong risk awareness and suitable risk management strategies are in place.



- 5.1.10** Performance Information regarding the speed of processing both new claims and amendments to existing claims is extracted from Academy by the Systems Support team on a regular basis.
- 5.1.11** The information is securely reported to the Department of Work & Pensions (DWP) in line with specified timescales. The data is also included with the Council's internal Performance Reporting framework and is reported quarterly to both the Senior Management Team and Scrutiny.
- 5.1.12** Performance information on both the speed and accuracy of processing is broken down in more detail and reported to the Benefit Department's management team on a regular and timely basis.
- 5.1.13** A benchmarking exercise carried out in 2017/18 indicated the City Council was performing above the national average. This data is available on the DWP website and is monitored informally on an ongoing basis.
- 5.1.14** Guidance is available to all staff for the processing claims in the form of relevant and up to date guide books and online access to the benefits directory.
- 5.1.15** The accuracy of the team's work is reviewed on an ongoing basis by the Quality Assurance officer (see below). However, the Quality Assurance process, which has been significantly developed by the current post-holder, is not documented. As there is only one Quality Assurance Officer in post there is a need to document procedures followed to ensure resilience is in place.

**Recommendation 1 – The quality assurance process adopted by the Benefits department should be documented.**

## **5.2 Regulatory – compliance with laws, regulations, policies, procedures and contracts**

- 5.2.1** The database software is devised to ensure claims are processed in line with current regulations and as stated above the team has access to relevant guidance and also receives regular training. This is then supported by the Quality Assurance process who ensures all claims are processed in line with the regulations.
- 5.2.2** The management team keep up to date with changes to legislation. The Council subscribes to the Institute of Revenues and Ratings. Relevant proposed changes to legislation (such as Universal Credit) are also monitored via the operational risk register.

### 5.3 Information – reliability and integrity of financial and operational information

- 5.3.1 Compliance with legislation should ensure that claims are processed accurately. Claims are audited by the Council's external auditors on an annual basis as part of their certification of the Housing Benefit subsidy claim.
- 5.3.2 The latest certification (for the year ending 31 March 2017) was reported to the Audit Committee in January 2018. Findings were positive and only two errors were identified, neither of which impacted on the subsidy.
- 5.3.3 Processed claims are subject to regular independent checks by the Quality Assurance Officer, who aims to review a 4% sample of claims for accuracy on a rolling basis.
- 5.3.4 The Officer in post is suitably experienced and knowledgeable and a review ensured that the quality assurance process is suitable. Findings are reported to managers on a timely basis and team members also receive regular feedback from the Quality Assurance Officer.
- 5.3.5 Electronic data is backed up on a regular basis and processes are in place to allow remote access to the software to allow for continuation of service provision if access to the Civic Centre is prevented.

### 5.4 Security – Safeguarding of Assets

- 5.4.1 New recruits are subject to a basic disclosure check prior to starting work within the department. This is a standard requirement for individuals with access to DWP data.
- 5.4.2 The check is currently only performed at the point of recruitment in line with the current corporate and DWP requirements. There is an expectation that current employees report any convictions, but it is recognised this is on a basis of trust (this process will be reviewed as part of an upcoming Internal Audit of the Council's corporate safeguarding procedures).
- 5.4.3 Staff declare any conflicts of interest for relatives and close friends they know to be in receipt of housing benefits. Officers are prevented from accessing records for any individuals declared. The declarations were found to be up to date and complete, with one exception (as the officer was absent from work when forms were last completed).

- 5.4.4** Access to the Revenues and Benefit office is restricted to only those staff requiring entry i.e. staff that work in the office, senior managers and cleaning staff. Relevant maintenance contractors are given temporary access when necessary.
- 5.4.5** Access is controlled using the Council's fob access system and access records are reviewed on a biannual basis.
- 5.4.6** Access to the Academy database is password restricted via the network log-in for Council Officers. Only relevant officers are granted access to the system and the level of access is defined.
- 5.4.7** Paper records received by the Council are stored securely and disposed of on a rolling two-monthly basis.
- 5.4.8** There is currently no suitable archiving of electronic data retained within Academy. There is a concern that irrelevant data is currently retained within the system as a result.
- 5.4.9** This has been recognised by the software provider, who accepts the current archiving tool is not fit for purpose. The provider is working on an updated archiving tool to ensure records will be retained in line with the incoming GDPR regulations. This is expected to be completed by May 2018. The Service Support team recognise that the testing and application of this tool is their top priority once the archiving tool is available.
- 5.4.10** From March 2016 responsibility for investigating suspected fraudulent claims was transferred from the Council to the DWP.
- 5.4.11** The Council has a responsibility to identify claims they suspect are fraudulent and refer these to the DWP for investigation. However, smaller anomalies (below a stated threshold) are treated as errors and processed and amended by Council officers.
- 5.4.12** Officers receive regular training on how to identify fraud and have received guidance on how to refer concerns to DWP.
- 5.4.13** There have been difficulties in obtaining feedback from the DWP on the outcome of cases referred to them. However, during the audit the DWP signalled their intentions to start reporting feedback on a quarterly basis and issued a feedback report to cover Q1 2017/18.
- 5.4.14** The Council has recently introduced a risk based verification process. This should ensure that those claims considered to be at the highest risk of being fraudulent are subject to a higher level of verification.

- 5.4.15** The Council partakes in the biennial National Fraud data-matching initiative. Access to matches relating to Housing Benefits are assigned directly to the DWP. A review of matches processed within the NFI database indicated they have been reviewed.
- 5.4.16** The Council also engages in a real time fraud initiative and downloads additional data from HMRC that can be used to verify claim information. This helps identify both lower value errors and suspected incidences of fraud.
- 5.4.17** There is no measurement of how successful the initiative is in terms of identifying errors and frauds. Given the additional processing burden, it is advised that an analysis of the errors and frauds identified by the initiative is performed and reported on a regular basis.

## Appendix A – Management Action Plan

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
<b>Recommendation 1:</b> The quality assurance process adopted by the Benefits department should be documented	<b>Priority</b> M	<b>Risk Exposure</b> Inability to perform QA process in the result of long term absence/vacant post.	The QA process will be documented.	Benefits Manager	30 August 2018

## Appendix B

### Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

	Definition:	Rating Reason
<b>Substantial</b>	There is a sound system of internal control designed to achieve the system objectives and this minimises risk.	<p>The controls tested are being consistently applied and no weaknesses were identified.</p> <p>Improvements, if any, are of an advisory nature in context of the systems and operating controls &amp; management of risks.</p>
<b>Reasonable</b>	There is a reasonable system of internal control in place which should ensure that system objectives are generally achieved, but some issues have been raised which may result in a degree of risk exposure beyond that which is considered acceptable.	<p>Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently developed.</p> <p>Recommendations are no greater than medium priority.</p>
<b>Partial</b>	The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses which have been identified and the level of non-compliance and / or weaknesses in the system of internal control puts the system objectives at risk.	<p>There is an unsatisfactory level of internal control in place as controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified.</p> <p>Recommendations may include high priority matters for address.</p>
<b>Limited / None</b>	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.	<p>Significant non-compliance with basic controls which leaves the system open to error and/or abuse.</p> <p>Control is generally weak/does not exist. Recommendations will include high priority matters for address. Some medium priority matters may also be present.</p>

## Appendix C

### Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are two levels of audit recommendations used; high and medium, the definitions of which are explained below.

	Definition:
<b>High</b>	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
<b>Medium</b>	Some risk exposure identified from a weakness in the system of internal control

The implementation of agreed actions to Audit recommendations will be followed up at a later date (usually 6 months after the issue of the report).





# Audit follow up of IT General Control

Draft Report Issued: 23 February 2018

Director Draft Issued: 23 February 2018

Final Report Issued: 02 March 2018



## Audit Report Distribution

<b>Client Lead:</b>	ICT Services Manager
<b>Chief Officer:</b>	Chief Executive
<b>Audit Committee:</b>	The Audit Committee, which is due to be held on 19 <sup>th</sup> March 2018 will receive summary findings and recommendations from this audit.

## Executive Summary

### 1.0 Background

- 1.1. This report summarises the findings from a follow up audit of IT General Controls. This was an internal audit review included in the 2017/18 risk-based audit plan agreed by the Audit Committee on 16<sup>th</sup> March 2017.
- 1.2. The original audit was carried out by the Council's external auditors (Grant Thornton) in March 2017, resulting in 8 recommendations. A management action plan was completed detailing agreed actions, responsible manager and implementation dates to address the recommendations (**Appendix A**). This follow-up report provides an update on progress made against this action plan.

### 2.0 Audit Approach

#### Audit Objectives and Methodology

- 2.1 Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems.
- 2.2 Detailed findings and recommendations are reported within section 5 of this report.
- 2.3 The ICT Services Manager was asked to provide an update on progress made implementing the agreed actions. Internal Audit then undertook testing as necessary to confirm that actions have been fully implemented and that controls are working as intended to mitigate risk.

#### Audit Scope and Limitations.

- 2.4 The original audit was performed by Grant Thornton to provide independent assurance over management's arrangements for ensuring effective IT related internal controls are in place.
- 2.5 It is the responsibility of management to monitor the effectiveness of internal controls to ensure they continue to operate effectively.
- 2.6 There were no instances whereby the audit work undertaken was impaired by the availability of information.

### 3.0 Assurance Opinion

- 3.1 The original audit was performed by the external auditors and therefore did not include an assurance opinion in line with the definitions specified by Internal Audit. This review solely follows up progress of those recommendations made in that review. It is therefore not appropriate to include an assurance opinion for this audit.

#### **4.0 Summary of Recommendations, Audit Findings and Report Distribution**

4.1 The previous audit included 8 recommendations (See **Appendix A**) of which:

- Four agreed actions have been successfully implemented.
- Four agreed actions have been partially implemented.

4.2 The four recommendations in progress will be documented on Internal Audit's register of outstanding recommendations and reviewed again in Q3 2018/19. Progress will be reported to Audit Committee as part of the routine monitoring of the implementation of outstanding audit recommendations.

#### **4.3 Findings Summary:**

Good progress has been made against the action plan, with four of the recommendations now implemented. Progress has been made in implementing the four remaining recommendations. Processes have been put in place to monitor network access and activity on a regular basis and testing of application recovery has been scheduled to take place throughout 2018.

ICT Services have pro-actively provided advice and guidance over recent months and are in the process of purchasing a cyber-security training module as part of the e-learning facility. Training will be mandatory for all staff.

As part of the Budget approval process for 2018/19 ICT Services have had additional funding approved to recruit a Cybersecurity Architect and purchase additional software. This approval should ensure all outstanding recommendations are fully implemented.

#### **Comment from the Chief Executive**

I thank Internal Audit for this Review. I am pleased to see that plans are in place to fully implement the previous recommendations.

## 5.0 Summary of Recommendations, Audit Findings and Report Distribution

### Recommendation 1 – IT Disaster Recovery

- 4.1.1 The original report highlighted that while an IT Disaster Recovery plan was in place, there had been no testing carried out to validate the effectiveness of recovery arrangements.
- 4.1.2 An ICT Disaster Recovery Management Framework was approved in January 2018. The Framework defines the type and frequency of testing to be carried out, based on the system's priority for recovery.
- 4.1.3 Testing of applications has been scheduled within Remedy Force (change management scheduling database) in line with the defined priorities. The first testing due to be carried out in April 2018.

### 4.2 Recommendation 2 – Information Security

- 4.2.1 The original report highlighted that new members of staff do not receive any training for information security.
- 4.2.2 Following approval of funding, ICT Services are in the process of procuring training modules to include on the Council's e-learning software (Skillsgate) to cover i) ICT hardware security and ii) cyber security. The modules will be mandatory for all officers to complete annually.
- 4.2.3 ICT Services have provided e-mail advice and guidance as and when the need arises (E.g. after recent successful cyberattacks on other local authorities).

### 4.3 Recommendation 3 – Privileged access to Civica

- 4.3.1 The original report highlighted two users with an unnecessarily high level of access. It was recommended that access levels are reviewed.
- 4.3.2 The Finance Officer (Systems, Controls & Development) reviewed access levels in November 2017 (though responses are overdue from some departments). The Finance Officer also receives regular leaver reports to check against Civica access.

#### **4.4 Recommendation 4 –Inactive accounts**

- 4.4.1** The original report highlighted that there was no process to monitor inactive network accounts.
- 4.4.2** The ICT Services Manager now receives a monthly report of all accounts that have been inactive for 30 days and reviews the reasons for this. Accounts no longer required are disabled.

#### **4.5 Recommendation 5 – Network Administrator**

- 4.5.1** The original report highlighted that a supplier user account had unnecessary system administrator access to the network. It was recommended that privileged access is restricted.
- 4.5.2** The ICT Services Manager now receives a monthly report of all administrator accounts and reviews whether the access is still relevant. Where not action is taken to remove/restrict access.

#### **4.6 Recommendation 6 – Proactive Reviews of Logical Access within Active Directory**

- 4.6.1** The original report highlighted that user accounts and associated permissions were not being formally, proactively reviewed for appropriateness. It was recommended that these were reviewed on a regular basis.
- 4.6.2** ICT services have embarked on a wider project to achieve and maintain PCI-DSS compliance. As part of this project the ICT Services team are looking to purchase a software product that, among other things, will perform live and continuous audits of the active directory.
- 4.6.3** In addition, ICT Services have had permission to recruit a Cyber-security post; the role will take a lead in this area.

#### **4.7 Recommendation 7 – Review of Information Security Logs Created by Active Directory**

- 4.7.1** The original audit highlighted that security activity within the Active Directory is not formally, proactively and routinely reviewed.
- 4.7.2** As part of the PCI-DSS compliance project (as above) ICT Services are also in the process of procuring Security Information and Event Management) software that will routinely monitor security activity and flag potential issues for further investigation (for example, if a user was logged in at two different locations at the same time).
- 4.7.3** The Cybersecurity Architect will also take a lead in this area.

#### **4.8 Recommendation 8 – Change Management Policies and Procedures**

- 4.8.1** The original audit highlighted that documented policies and procedures had not been formally established addressing change management processes and related control requirements within key applications.
- 4.8.2** A policy has now been drafted and ICT Services have already adopted this for application upgrades and will be rolled out for infrastructure changes from March (though the schedule has not been agreed with system owners to date).

## Appendix A – Original Management Action Plan

Summary of Recommendations and agreed actions						
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date	Actioned
<b>Recommendation 1:</b> The Council should produce a test strategy for the critical services recovery plan. Key elements of this plan should be tested at least on an annual basis to validate the effectiveness of the recovery arrangements.	N/S	There is a risk that the Council IT systems could not be restored within a reasonable timescale should a disaster affect the server room at the Civic centre. This could have a detrimental impact on the Council's ability to provide services or lead to reputational damage.	I will implement an annual test of our critical services recovery plan as recommended.	ICT Services Manager	31 October 2017	Yes
<b>Recommendation 2:</b> We recommend that the Council provides new members of staff with information security training. In addition, members of staff should attend some information security training on a regular basis to remind them of their responsibilities regarding data and IT assets. Evidence from training attendance should be retained.	N/S	Although users are reminded of the internet code of conduct when they log onto the network, there is a risk that users adopt inadequate information security practices when using IT assets escalated.	Currently, training is not of part Digital and Information Services remit. I will follow up this recommendation with our training unit.	ICT Services Manager	31 December 2017	In progress



Summary of Recommendations and agreed actions						
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date	Actioned
<b>Recommendation 3:</b> We recommend reassessing the users that have full access to the live company in the Civica system. This access should only be granted to personnel that require it to fulfil their job duties.	N/A	a) Bypass of system-enforced internal control mechanisms through inappropriate use of administrative functionality by (1) making unauthorised changes to system configuration parameters, (2) creation of unauthorised accounts, (3) making unauthorised updates to their own account's privileges, or (4) deletion of audit logs or disabling logging mechanisms. b) Internal access to information assets and administrative functionality may not be restricted on the basis of legitimate business need.	<b>Agreed management action:</b> I will undertake a review of access to Civica system as recommended	ICT Services Manager	30 June 2017	Yes
<b>Recommendation 4:</b> The Council should implement a process to identify network accounts that have not been used for a period of time. These accounts should be investigated to confirm whether they are still required or they could be disabled	N/S	There is a risk that unnecessary network accounts could remain active. This could lead to unauthorised access to data.	As recommended, I will put in place procedures for the review of inactive user accounts.	ICT Services Manager	31 October 2017	Yes

Summary of Recommendations and agreed actions						
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date	Actioned
<b>Recommendation 5:</b> The Council should implement a process to revalidate domain admin user accounts on a monthly basis. Privileged network access should only be granted to users that require it to fulfil their job duties	N/S	a) Bypass of system-enforced internal control mechanisms through inappropriate use of administrative functionality by (1) making unauthorised changes to system configuration parameters, (2) creation of unauthorised accounts, (3) making unauthorised updates to their own account's privileges, or (4) deletion of audit logs or disabling logging mechanisms. b) Internal access to information assets and administrative functionality may not be restricted on the basis of legitimate business need.	As recommended, I will ensure a procedure is implemented to review domain administrative privileges	ICT Services Manager	31 October 2017	Yes

Summary of Recommendations and agreed actions						
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date	Actioned
<b>Recommendation 6:</b> It is our experience that access privileges tend to accumulate over time. As such, there is a need for management to perform periodic, formal reviews of the user accounts and permissions within Active Directory. These reviews should take place at a pre-defined, risk-based frequency (annually at a minimum) and should create an audit trail such that a third-party could determine when the reviews were performed, who was involved, and what access changed as a result. These reviews should evaluate both the necessity of existing user ID's as well as the appropriateness of user-to-group assignments (with due consideration being given to adequate segregation of duties)...	N/S	a) Gaps in user administration processes and controls may not be identified and dealt with in a timely manner. b) Access to information resources and system functionality may not be restricted on the basis of legitimate business need. c) Enabled, no-longer-needed user accounts may be misused by valid system users to circumvent internal controls. d) No-longer-needed permissions granted to end-users may lead to segregation of duties conflicts. e) Access privileges may become disproportionate with respect to end users' job duties.	As recommended, I will ensure a procedure is implemented to review of user accounts and permissions.	ICT Services Manager	31 October 2017	Yes

Summary of Recommendations and agreed actions						
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date	Actioned
<b>Recommendation 7:</b> Given the criticality of data accessible through Active Directory, logs of information security events (i.e., login activity, unauthorised access attempts, access provisioning activity) created by these systems should be proactively, formally reviewed for the purpose of detecting inappropriate or anomalous activity. These reviews should ideally be performed by one or more knowledgeable individuals who are independent of the day-to-day use or administration of these systems.	N/S	Without formal, proactive, and routine reviews of security event logs, inappropriate and anomalous security activity (e.g., repeated invalid login attempts, activity violating information security policies) may not identified and/or addressed in a timely manner	I have evaluated a number of products and services which would provide an automated monitoring of logs and network activity as we do not have the resources to do this manually. I will be producing a reporting for consideration by the council's Senior Management Team on how we address this issue.	ICT Services Manager	31 December 2017	In Progress

Summary of Recommendations and agreed actions						
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date	Actioned
<b>Recommendation 8:</b> Documented policies and procedures addressing change management processes and related control requirements (such as change testing, approvals, and documentation requirements) within Civica Authority Financials, Trent, and Academy should be established, formally approved by the appropriate members of the organisation, and communicated to relevant personnel responsible for implementing them and/or abiding by them	N/S	a) Change and patch management processes and control requirements may not be formalised or communicated to those within the organisation responsible for observing and/or implementing them. b) Change and patch management may not be effectively administered, leading to loss of data integrity, processing integrity and/or system down-time.	This had already been identified as an issue by the D&IS management team. A process to implement change control within the service will be developed and implemented.	ICT Services Manager	Not stated	In part



## Report to Audit Committee

Agenda  
Item:

**A.7**

Meeting Date: 19 March 2018  
Portfolio: Finance, Governance and Resources  
Key Decision: No  
Within Policy and Budget Framework: Yes  
Public / Private: Public

Title: TREASURY MANAGEMENT OCTOBER - DECEMBER 2017  
Report of: CHIEF FINANCE OFFICER  
Report Number: RD45/17

### **Purpose / Summary:**

This report, which provides the regular quarterly summary of Treasury Management transactions for the third quarter of 2017/18 was received by the Executive on 12 February 2018. The Audit Committee is invited to make any observations on treasury matters which took place during this quarter although it will be noted from the report that this was a relatively quiet period in treasury terms. The Committee is otherwise asked to note the report.

### **Recommendations:**

That the report be noted.

## Report to Executive

Agenda  
Item:

Meeting Date: 12<sup>th</sup> February 2018  
Portfolio: Finance, Governance and Resources  
Key Decision: No  
Within Policy and Budget Framework YES  
Public / Private Public

Title: TREASURY MANAGEMENT OCTOBER - DECEMBER 2017  
Report of: CHIEF FINANCE OFFICER  
Report Number: RD45/17

### Purpose / Summary:

This report provides the regular quarterly report on Treasury Transactions including the requirements of the Prudential Code.

### Recommendations:

That this report be received and the Prudential Indicators noted as at the end of December 2017.

### Tracking

Executive:	<b>12 February 2018</b>
Scrutiny:	<b>n/a</b>
Audit Committee:	<b>19 March 2018</b>
Council:	<b>n/a</b>



## **1. INTRODUCTION**

1.1 The purpose of this report is to inform Members on various Treasury Management issues. The report is set out as follows:

(i) **Appendix A** sets out the schedule of Treasury Transactions for the period October 2017 –December 2017

- **Appendix A1** – Treasury Transactions October to December 2017
- **Appendix A2** – Investment Transactions October to December 2017
- **Appendix A3** – Outstanding Investments at December 2017

(ii) **Appendix B** discusses the Prudential Code and Prudential Indicators for 2017/18:

- **Appendix B1** – Prudential Code background
- **Appendix B2** – Prudential Indicators

## **2. CONSULTATION**

2.1 Consultation to Date.  
None.

## **3. CONCLUSION AND REASONS FOR RECOMMENDATIONS**

3.1 That this report be received and the Prudential Indicators noted as at the end of December 2017.

## **4. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES**

4.1 To ensure that the Council's investments are in line with the appropriate policies including the Treasury Management Strategy Statement.

**Contact Officer:** Steven Tickner **Ext:** 7280

**Appendices attached to report:**

- Appendix A1** – Treasury Transactions October to December 2017
- Appendix A2** – Investment Transactions October to December 2017
- Appendix A3** – Outstanding Investments at December 2017
- Appendix B1** – Prudential Code background
- Appendix B2** – Prudential Indicators

**Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers:**

- **None**

**CORPORATE IMPLICATIONS/RISKS:**

**Economic Development** – not applicable

**Governance & Regulatory Services** – The Council has a fiduciary duty to manage its finances properly and the proper reporting of budget monitoring is part of this process.

**Community Services** – not applicable

**Corporate Support & Resources** – Contained within the report

TREASURY TRANSACTIONS  
OCTOBER 2017 to DECEMBER 2017

1. LOANS (DEBT)

1.1 Transactions October to December 2017

	Raised		Repaid	
	£	%	£	%
P.W.L.B	0		0	0
Local Bonds	0		0	0
Short Term Loans	0		0	0.00
Overnight Borrowing	0		0	0.00
	<b>0</b>		<b>0</b>	

This provides a summary of any loans that have been raised or repaid, analysed by type, since the previous report. New procedures have been put in place to map the cash flow more accurately to enable better forecasting and to limit the amount of short term/overnight borrowing which may be required.

1.2 Loans (Debt) Outstanding at December 2017

	£
City of Carlisle Stock Issue	15,000,000
Short Term Loans	12,800
	<b>15,012,800</b>

1.4 Loans Due for Repayment (Short Term)

	PWLB £	Overnight £	Total £
Short Term Debt at 31 December 2017 (These are the balances held on behalf of Carlisle Educational Charity and Mary Hannah Almshouses)	0	0	12,800
			<b>12,800</b>

1.5 Interest Rates

Link Asset Services are not currently forecasting an interest rate rise until March 2019 with rates set to remain at 0.50% until then.

## 2 INVESTMENTS

	Made		Repaid	
	£	%	£	%
Short Term Investments	39,140,000	0.15-0.67	37,240,000	0.15-0.72
	<b>39,140,000</b>		<b>37,240,000</b>	

A full schedule of short term investment transactions is set out in Appendix A2. Appendix A3 shows outstanding short term investments at 31 December 2017.

## 3 REVENUES COLLECTED

To: 31 December 2017		Collected £	% of Amount Collectable %
2017/18	Council Tax NNDR	48,562,878 37,443,264	84.88 84.75
<b>Total</b>		<b>86,006,142</b>	<b>84.82</b>
2016/17	Council Tax NNDR	45,151,091 38,154,069	84.54 84.22
<b>Total</b>		<b>83,305,160</b>	<b>84.39</b>
2015/16	Council Tax NNDR	43,957,155 36,268,454	85.12 82.58
<b>Total</b>		<b>80,225,609</b>	<b>83.95</b>

## 4 BANK BALANCE

At 31 December 2017 £255,104.36 in hand.

This records the Council's bank balance at the end of the last day covered by the report.

## 5 PERFORMANCE ON TREASURY MANAGEMENT TRANSACTIONS TO DECEMBER 2017

April –December 2017

	Estimate £000	Actual £000	Variance £000
Interest Receivable	(197)	(164)	33
Interest Payable	850	848	(2)
Less Rechargeable	0	0	0
	<b>850</b>	<b>848</b>	<b>(2)</b>
Principal Repaid	187	147	(40)
Debt Management	13	13	0
<b>NET BALANCE</b>	<b>853</b>	<b>844</b>	<b>(9)</b>

The estimate column is the profiled budget to 31 December 2017.

Interest receivable is below budgeted projections due to lower average cash balances than expected whilst settlement of insurance claims is finalised and due to the up-front payment of pensions made in April 2017. Average investment returns have not risen in line with the recent increase in bank base rate which also impacts on the returns being achieved. The CCLA property investment saw another increase in the capital value for the quarter, and has recovered the small downturn in value experienced around the Brexit vote. Dividends remain at 4.58%.

## APPENDIX A2

### SHORT TERM INVESTMENT TRANSACTIONS OCTOBER TO DECEMBER 2017

INVESTMENTS MADE		INVESTMENTS REPAYD	
	£		£
Handelsbanken	3,750,000.00	HSBC	240,000.00
HSBC	2,200,000.00	HSBC	1,450,000.00
HSBC	1,180,000.00	HSBC	630,000.00
Bank of Scotland	1,500,000.00	Bank of Scotland	1,500,000.00
Goldman Sachs	1,000,000.00	Goldman Sachs	1,000,000.00
HSBC	2,940,000.00	HSBC	1,900,000.00
Handelsbanken	2,650,000.00	HSBC	120,000.00
HSBC	4,000,000.00	HSBC	300,000.00
Standard Life	3,000,000.00	Handelsbanken	2,650,000.00
Bank of Scotland	1,000,000.00	HSBC	1,680,000.00
Bank of Scotland	1,000,000.00	Standard Chartered	2,000,000.00
Handelsbanken	2,000,000.00	Standard Chartered	3,000,000.00
Standard chartered	2,000,000.00	Handelsbanken	1,400,000.00
Standard Life	1,500,000.00	Handelsbanken	1,500,000.00
HSBC	300,000.00	Handelsbanken	500,000.00
HSBC	350,000.00	Handelsbanken	200,000.00
Federated Investors	3,900,000.00	Handelsbanken	400,000.00
HSBC	2,300,000.00	Federated Investors	2,500,000.00
Federated Investors	1,100,000.00	Standard Life	1,500,000.00
Handelsbanken	1,000,000.00	Federated Investors	1,500,000.00
HSBC	470,000.00	HSBC	2,900,000.00
		HSBC	50,000.00
		Federated Investors	1,000,000.00
		Federated Investors	1,450,000.00
		Handelsbanken	1,000,000.00
		HSBC	3,750,000.00
		HSBC	1,120,000.00
<b>TOTAL</b>	<b>39,140,000</b>		<b>37,240,000</b>
		Bfwd	15,979,873
		Paid	39,140,000
		Repaid	37,240,000
		<b>Total</b>	<b>17,879,873</b>
		<b>CCLA Growth/(Reduction)</b>	<b>122,330</b>
		<b>Total</b>	<b>18,002,203</b>

### Outstanding Investments as at 31 December 2017

Category	Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Current Days to Maturity	Days to maturity at execution	Total Interest Expected (£)
Y	MMF Federated Investors	2,550,000	0.39%					0
O	HSBC Bank Plc	1,600,000	0.40%	29/12/2017	02/01/2018	2	4	70
R	Goldman Sachs	1,000,000	0.58%	01/08/2017	01/02/2018	32	184	2,924
R	Goldman Sachs	1,000,000	0.54%	16/08/2017	16/02/2018	47	184	2,722
R	Standard Chartered Bank	2,000,000	0.41%	15/11/2017	23/02/2018	54	100	2,247
O	Bank of Scotland PLC	1,000,000	0.56%	06/11/2017	19/03/2018	78	133	2,041
O	Bank of Scotland PLC	1,000,000	0.38%	20/09/2017	21/03/2018	80	182	1,895
R	Goldman Sachs	1,000,000	0.69%	29/09/2017	29/03/2018	88	181	3,422
O	Bank of Scotland PLC	1,500,000	0.31%	13/10/2017	29/03/2018	88	167	2,128
R	Goldman Sachs	1,000,000	0.68%	13/10/2017	13/04/2018	103	182	3,391
O	Bank of Scotland PLC	1,000,000	0.64%	06/11/2017	27/04/2018	117	172	3,016
	Total Investments	£14,650,000	0.48%			69	149	£23,854
Borrower	Current Market Value (£)	Current Yield	Start Date	Initial Investment (£)	Entry Cost (£) <sup>1</sup>	Initial Market Value (£)	Unrealised Growth (£)	
CCLA Property Fund	3,352,203	4.58%	31/07/2014	3,000,000	(163,104)	2,836,896	352,203	

1. Entry Costs were charged against Treasury Management Budget in 2014/15

N.B Interest is recognised in the appropriate financial year in which it is due.

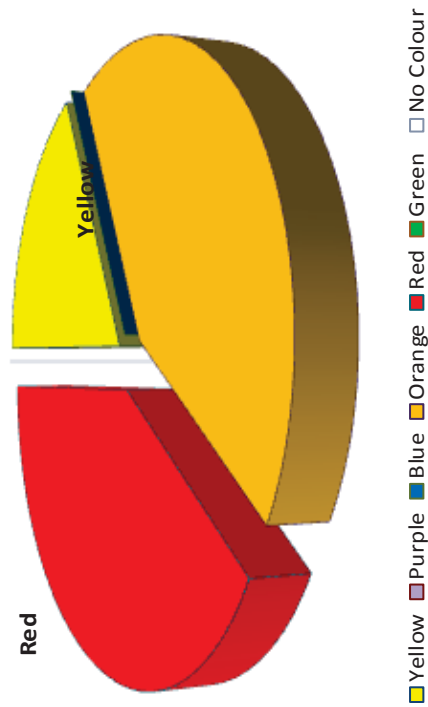
The category colour represents the duration of investment recommended by Link Asset Services, the Council's Treasury Advisors. Those investments with No colour, are still within the Council's investment Strategy and are therefore deemed suitable for investing.

## Investment Summary Sheet

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	Weighted Average Rate of Return	Weighted Average Days to Maturity	Weighted Average Days to Maturity from Execution WAM at Execution
Yellow	17.41%	2,550,000	100.00%	2,550,000	17.41%	0.39%	0	0	0
Purple	0.00%	-	0.00%	-	0.00%	0.00%	0	0	0
Blue	0.00%	-	0.00%	-	0.00%	0.00%	0	0	0
Orange	41.64%	6,100,000	0.00%	-	0.00%	0.44%	67	122	122
Red	40.96%	6,000,000	0.00%	-	0.00%	0.55%	63	155	155
Green	0.00%	-	0.00%	-	0.00%	0.00%	0	0	0
No Colour	0.00%	-	0.00%	-	0.00%	0.00%	0	0	0
Grand Total	100.0%	14,650,000	17.41%	2,550,000	17.41%	0.48%	54	114	114

Risk Score for Colour (1 = Low, 7 = High)												
1	2	3	4	5	6	7	Dec 2017	Sep 2017	Jun 2017	Mar 2017		
1	2	3	4	5	6	7	0.2	0.3	0.0	0.0	0.0	0.0
2	3	4	5	6	7		0.0	0.0	0.0	0.0	0.0	0.0
3	4	5	6	7			0.0	0.0	0.0	0.0	0.0	0.0
4	5	6	7				1.7	0.1	0.6	0.3	0.3	0.3
5	6	7					2.0	3.3	4.3	4.6	4.6	4.6
6	7						0.0	0.0	0.0	0.0	0.0	0.0
7							0.0	0.0	0.0	0.0	0.0	0.0
							<b>3.9</b>	<b>3.7</b>	<b>4.2</b>	<b>4.9</b>		

Portfolio Composition by Link's Suggested Lending Criteria



Normal' Risk Score

3.5 3.5 3.5 3.5 3.5



**THE PRUDENTIAL CODE AND PRUDENTIAL BORROWING**

**1. Introduction**

- 1.1 The Local Government Act 2003 brought about a new borrowing system for local authorities known as the Prudential Code (the Code). This gives to Councils much greater freedom and flexibility to borrow without government consent so long as they can afford to repay the amount borrowed.
- 1.2 The aim of the Code is to support local authorities when making capital investment decisions. These decisions should also be in line with the objectives and priorities as set out in the Council's Corporate Plan.
- 1.3 The key objectives of the Code are to ensure, within a clear framework, that the capital investment plans of the Council are affordable, prudent and sustainable, or if appropriate, to demonstrate that they may not be. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability. These objectives are consistent with and support local strategic planning, local asset management planning and proper option appraisal. They also encourage sound treasury management decisions.

**2. Prudential Indicators**

- 2.1 To demonstrate that the Council has fulfilled these objectives, the Code sets out indicators that must be used. It is for the council to set any indicative limits or ratios. It is also important to note that these indicators are not designed to be comparative performance figures indicators but to support and record the Council's decision making process.
- 2.2 Appendix B2 sets out the latest performance indicators for the current year.

**3. Supported and Unsupported (or Prudential) Borrowing**

- 3.1 Local authorities have always funded a substantial element of their capital programme via borrowing. This continues to be the case but until the introduction of the Code any local authority borrowing was essentially based upon a government 'permission to borrow'. Differing types of government control operated over the years but since 1990 these had been termed credit approvals. The level of an authority's previous years' credit approvals is also included in the revenue support grant (RSG) allocation so that ultimately any borrowing is 'supported' via RSG.

- 3.2 This element of supported borrowing is still part of the RSG system although the City Council has previously resolved that its capital borrowing would be limited to its level of supported borrowing. In 2017/18 this is estimated to be Nil.
- 3.3 However, there may be circumstances in which the City Council will wish to undertake some prudential borrowing and the issues surrounding unsupported and supported borrowing are discussed below.
- 3.4 Authorities are permitted to borrow in excess of their supported borrowing allocation. This is referred to as prudential or unsupported borrowing. This can be undertaken so long as the Council can demonstrate that the revenue consequences of such borrowing (i.e. the cost of the debt) are sustainable, affordable and prudent in the medium to long term.

PRUDENTIAL INDICATORS

Central to the operation of the Prudential code is the compilation and monitoring of prudential indicators covering affordability, prudence, capital expenditure, and treasury management. Set out below are the indicators for 2017/18 to date as detailed in the Treasury Management Strategy Statement for 2017/18.

**(a) Affordability**

	2017/18 Original Estimate £	2017/18 Revised Estimate £
<b>(i) Capital Expenditure</b>	3,182,000	9,618,500
<b>(ii) Financing Costs</b> Total Financing Costs	1,244,000	1,223,000
<b>(iii) Net Revenue Stream</b> Funding from Govt Grants/Local Taxpayers	12,047,000	12,047,000
<b>(iv) Ratio of Financing Costs to Net Revenue Stream</b> The figures monitor financing costs as a proportion of the total revenue stream from government grants and local taxpayers. The increase in the ratio of financing costs is mainly attributable to the forecast reduction in investment income.	10.33%	10.15%
<b>(v) Incremental Impact on Council Tax</b> This indicator allows the effect of the totality of the Council's capital investment decisions to be considered at budget setting time.	(1.36)	3.00
<b>(vi) Authorised Borrowing Limit</b> Maximum Level of Borrowing and Other Long term Liabilities	37,600,000	37,600,000
	15,012,800	15,012,800
The authorised borrowing limit is determined by Council prior to the start of the financial year. The limit must not be altered without agreement by Council and should not be exceeded under any foreseeable circumstances.		

	2017/18 Original Estimate £	2017/18 Revised Estimate £
<b>(vii) Operational Borrowing Limit</b> Maximum Level of Borrowing and Other Long term Liabilities The operational borrowing limit is also determined by Council prior to the start of the financial year. Unlike the authorised limit, it may be breached temporarily due to cashflow variations but it should not be exceeded on a regular basis.	32,600,000  15,012,800	32,600,000  15,012,800
<b>(viii) Capital Financing Requirement (CFR)</b> As at 31 March The CFR is a measure of the underlying borrowing requirement of the authority for capital purposes.	12,645,000	15,706,000

**(b) Prudence and Sustainability**

	2017/18 Original £
<b>(i) New Borrowing to Date</b> No Long Term Borrowing has been taken in 2017/18 to date	0
<b>(ii) Percentage of Fixed Rate Long Term Borrowing</b> at December 2017	100%
<b>(iii) Percentage of Variable Rate Long Term Borrowing</b> at December 2017 Prudent limits for both fixed and variable rate exposure have been set at 100%. This is due to the limited flexibility available to the authority in the context of its overall outstanding borrowing requirement.	0%
<b>(iv) Minimum Level of Investments Classified as Specified</b> Level of Specified Investments as at December 2017  As part of the Investment Strategy for 2017/18, the Council set a minimum level of 50% for its specified as opposed to non specified investments. The two categories of investment were defined as part of the Strategy but for the City Council non specified investments will presently refer mainly to either investments of over one year in duration or investments placed with building societies that do not possess an appropriate credit rating. These tend to be the smaller building societies.	50.00% 100.00%

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## EXCERPT FROM THE MINUTES OF THE EXECUTIVE HELD ON 12 FEBRUARY 2018

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**EX.16/18      TREASURY MANAGEMENT OCTOBER – DECEMBER 2017**  
(Non Key Decision)

**Portfolio**      Finance, Governance and Resources

**Relevant Scrutiny Panel**      Business and Transformation

### **Subject Matter**

The Deputy Leader, and Finance, Governance and Resources Portfolio Holder submitted report RD.45/17 providing the regular quarterly report on Treasury Transactions, including the requirements of the Prudential Code.

Appendix 1 recorded that interest receivable was below budgeted projections due to lower average cash balances than expected whilst settlement of insurance claims was finalised and due to the up-front payment of pensions made in April 2017. Average investment returns had not risen in line with the recent increase in bank base rate which also impacted upon the returns being achieved. The CCLA property investment saw another increase in the capital value for the quarter, and had recovered the small downturn in value experienced following the Brexit vote. Dividends remained at 4.58%.

In conclusion the Deputy Leader, and Finance, Governance and Resources Portfolio Holder formally moved the recommendation which was formally seconded by the Leader.

**Summary of options rejected**      none

### **DECISION**

That Report RD.45/17 be received and the Prudential Indicators noted as at the end of December 2017.

### **Reasons for Decision**

To advise Members of the Council's Treasury Transactions



# Report to Audit Committee

Agenda  
Item:

**A.8**

Meeting Date: 19 March 2018  
Portfolio: Finance, Governance and Resources  
Key Decision: Not Applicable:  
Within Policy and  
Budget Framework YES  
Public / Private Public

Title: UPDATE ON EFFECTIVENESS REVIEW OF THE AUDIT  
COMMITTEE  
Report of: Chief Finance Officer  
Report Number: RD52/17

## Purpose / Summary:

This report provides Members with an update on the Audit Committee effectiveness review and the proposed training programme for the Committee for the forthcoming Civic year.

## Recommendations:

Members are requested to approve or suggest amendments to the proposed outline training programme.

## Tracking

Audit Committee:	<b>19 March 2018</b>
Overview and Scrutiny:	<b>Not applicable</b>
Council:	<b>Not applicable</b>

## **1. BACKGROUND**

- 1.1 This report provides an update following the effectiveness review of the Audit Committee, which was undertaken on 19<sup>th</sup> April 2016 and a further workshop to discuss the improvement plan which was held on 11 April 2017.
- 1.2 An update was provided to the Committee on 14 July 2017, outlining the proposed areas for a skill based framework and specific training programme and how the profile of the Audit Committee could be raised.
- 1.3 From that meeting the following comments were made:
- Members would welcome the opportunity to talk to the Chief Executive about the culture of the organisation at a pre-meeting session;
  - Senior Members of the Committee could act as mentors to new Members;
  - Moving forward the private preparatory / briefing meetings for Members held immediately prior to each meeting to be used as a training session; the new arrangement to be reviewed in a year;
  - Task and Finish Group meetings could be held on occasions where such meetings would add value to the work of the Committee;
  - Consideration to be given to the number of Committee meetings and possible use of special meetings to avoid the scenario whereby a large volume of business required to be transacted at any meeting;
  - Members were in agreement with the suggestions put forward with a view to raising the profile of the Audit Committee.

## **2. TRAINING PROGRAMME**

- 2.1 The Committee currently receives specific training on the Statement of Accounts, Role of Internal Audit, Role of External Audit and Role of the Audit Committee as part of the Ethical Governance Training Programme in June each year which is to aid the Committee in fulfilling its role throughout the year.
- 2.2 As well as this specific training it was agreed that there would be further opportunities to deliver training to the Committee prior to each meeting. (From 9.15 to 10.00). A proposed outline of the subjects to be covered by this training is given below. It is proposed to start these training sessions from the 9 July meeting, with one topic being covered at each subsequent meeting.
- **Local code of Corporate Governance/Annual Governance Statement (9 July)**
    - *Overview of the requirements*
    - *What goes in the Annual Governance Statement?*
    - *Approval Process*



*To be delivered by Principal Auditor and Deputy Chief Finance Officer*

- **Budget planning process (26 September)**
  - *Overview of budget process, including MTFP, Timetable, Reporting requirements*
- **Financial reporting and monitoring (26 September)**
  - *Overview of content of budget monitoring reports*
  - *Explanation of terminology used*
  - *Impact on reserves*

*Both to be delivered by Deputy Chief Finance Officer*

- **Treasury Management (including MRP) (17 December 2017)**
  - *Overview of Prudential Code, CIPFA Code of Practice on Treasury Management, Guidance on Minimum Revenue Provision and Local Authority Investment Guidance*

*To be delivered by Deputy Chief Finance Officer*

- **Public Sector Internal Audit Standards (PSIAS) (18 March 2019)**
  - *Overview of the PSIAS and what they include*

*To be delivered by Principal Auditor*

- **The risk based approach to internal auditing (18 March 2019)**
  - *Overview of the planning process, risk scoring matrix and detail around where audit resources will be deployed*

*To be delivered by Principal Auditor*

Further training proposed for 2019/20 will include:

- Risk Management (tbc)
- Value for Money (tbc)
- Constitution (tbc)
- Counter Fraud and Corruption (tbc)
- Understanding of Legislation (tbc)

2.4 An updated CIPFA Guidance on Local Government Finance was published at the end of 2017 and copies have been placed on the intranet for members and officers to view. There are two versions of the document, an introductory version that is more abridged and easier to read and a full version that goes into more technical

detail. These documents could be utilised in the Budget Setting and Financial Reporting and Monitoring Training sessions.

### **3. CONCLUSION AND REASONS FOR RECOMMENDATIONS**

- 3.1 Members are requested to note the comments and proposed training programme included in the report to improve the effectiveness of the Committee.

### **4. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES**

- 4.1 To ensure that the Council has the necessary governance arrangements in place to comply with statutory requirements and CIPFA guidance.

**Contact Officer: Steven Tickner**

**Ext: 7280**

**Appendices  
attached to report:**

**Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers:**

- None

### **CORPORATE IMPLICATIONS/RISKS:**

**Community Services – not applicable**

**Economic Development – not applicable**

**Governance & Regulatory** – The purpose of the Council's Audit Committee is to provide independent assurance of the adequacy of the risk management framework and also scrutiny of our financial and non-financial performance. The establishment of the Committee is in line with CIPFA best practice as is the requirement to review the committee's effectiveness so as to ensure that the Council obtains the necessary assurance it requires. Even when operating to a satisfactory level, we should also seek to improve when we are able to do so. Article 15 of the Constitution says that the Monitoring Officer should promote best practice amongst the Council's Committees and the effectiveness review of the Audit Committee which included the involvement of the Chief

Finance Officer, Designated Head of Internal Audit and the Monitoring Officer is welcomed and is an excellent part of this process.

**Corporate Support & Resources** – included in the main body of the report

