

**AUDIT COMMITTEE**

**FRIDAY 14 JULY 2017 AT 10.00 AM**

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

**OFFICERS:** Chief Executive (until 10.43 am)  
Deputy Chief Executive  
Corporate Director of Governance and Regulatory Services  
Chief Finance Officer  
Deputy Chief Finance Officer and Designated Head of Internal Audit

Policy and Communications Manager (until 11.30 am)  
Revenues and Benefits Operations Manager

Principal Auditor  
Principal Accountant

Audit Manager (Cumbria Shared Internal Audit Service) (until 11.20 am)  
Principal Auditor (Cumbria Shared Internal Audit Service) (until 11.20 am)

**ALSO**

**PRESENT:** Associate Director (Grant Thornton)  
Audit Manager (Grant Thornton) (until 12.07 pm)

**AUC.16/17 APPOINTMENT OF CHAIRMAN**

The Corporate Director of Governance and Regulatory Services welcomed all those present to the meeting. He indicated that the first item of business was to appoint a Chairman of the Committee for the 2017/18 Municipal Year and sought nominations in respect thereof.

Councillor Earp moved, Councillor Bowditch seconded, and it was:

**RESOLVED** – That Councillor Patrick be appointed Chairman of the Audit Committee for the 2017/18 Municipal Year.

Councillor Patrick thereupon took the Chair.

**AUC.17/17 APPOINTMENT OF VICE-CHAIRMAN**

The Chairman sought nominations with regard to the appointment of a Vice-Chairman of the Committee.

Councillor Patrick moved, it was seconded, and:

**RESOLVED** – That Councillor Bowditch be appointed Vice-Chairman of the Audit Committee for the Municipal Year 2017/18.

## **AUC.18/17      WELCOME**

The Chairman extended a warm welcome to all those present and, particularly, the new Members of the Committee.

## **AUC.19/17      APOLOGY FOR ABSENCE**

An apology for absence was submitted on behalf of Councillor Mrs Mallinson.

## **AUC.20/17      DECLARATIONS OF INTEREST**

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

## **AUC.21/17      PUBLIC AND PRESS**

In order to facilitate the attendance of the Audit Manager and Principal Auditor (Cumbria Shared Internal Audit Service), the Chairman moved that Agenda items A7 (Internal Audit Progress Report 2016/17 Quarter 4), A8 (Internal Audit Annual Report 2016/17) and A9 (Internal Audit Progress Quarter 1 – 2017/18) be taken immediately following Item A.1 (Minutes of Resources Overview and Scrutiny Panel). The remaining business would then be dealt with as scheduled on the Agenda. That course of action was duly agreed.

RESOLVED – That the order of proceedings be varied as outlined above.

## **AUC.22/17      MINUTES OF PREVIOUS MEETING**

The Minutes of the meeting of the Audit Committee held on 16 March 2017 were submitted.

RESOLVED – That the Minutes of the meeting of the Audit Committee held on 16 March 2017 be agreed as a correct record and signed by the Chairman.

## **AUC.23/17      MINUTES OF RESOURCES OVERVIEW AND SCRUTINY PANEL**

The Minutes of the meetings of the Resources Overview and Scrutiny Panel held on 13 April and 13 June 2017 were submitted for information.

RESOLVED – That the Minutes of the meetings of the Resources Overview and Scrutiny Panel held on 13 April and 13 June 2017 be noted and received.

## **AUC.24/17      INTERNAL AUDIT PROGRESS REPORT 2016/17 QUARTER 4**

The Audit Manager (Cumbria Shared Internal Audit Service) submitted report RD.12/17 summarising the work carried out by Internal Audit in the latest period in relation to completion of the 2016/17 plan.

The report recorded that it had not been possible to complete one audit from the revised 2016/17 plan. That related to the audit of NNDR (Business Rates). Audit testing was ongoing within the in-house team and it was envisaged that the report would be concluded by the City Council Team.

There were nine audit reports for consideration by Members: Audit of Car Parking Income; Audit of Flood Related Procurement; Audit of Early Release and Voluntary Redundancy Scheme; Audit Follow Up of Homeworking Arrangements; Audit of Disabled Facilities Grants; Audit of

Asset Acquisitions and Disposals; Audit of Mobile Device Security; Audit of Performance Management; and Audit of Physical Security of Premises.

The Audit Manager (Cumbria Shared Internal Audit Service) indicated that he would provide a brief overview of those audits which had received a reasonable or substantial assurance opinion; before focussing in greater detail on the audits with a partial assurance opinion. The Audit Manager (Cumbria Shared Internal Audit Service) then outlined the above mentioned audits highlighting, in particular, the key points and associated recommendations.

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

#### Audit of Car Parking Income (Reasonable Assurance Opinion)

- *Referencing Section 4.4 (Areas for development), a Member acknowledged that a great deal of work had been undertaken in relation to car parking. One aim and key objective was, however, around the maximisation of income generation. Why therefore was no clear documented strategy in place?*

The Deputy Chief Executive reminded Members that external consultants engaged by the Council had undertaken work which had led to a number of actions, the aim of which was to sustain and, if possible, increase income levels. That had occurred to a variable degree. Monitoring of income against targets took place at Departmental Management Team meetings.

The Audit of Car Parking Income had been given reasonable assurance, and the Deputy Chief Executive felt that resources may be better directed to those areas where more improvement was needed.

- *Post the December 2015 floods certain people appeared to be unaware of current car parking regulations. Were those visible in each car park?*

In response, the Deputy Chief Executive stated that the Car Parking Team had done an excellent job in progressing the replacement of signage across all of the authority's car parks. The new signage included location numbers, payment options and parking guidance.

The Deputy Leader, and Finance, Governance and Resources Portfolio Holder added that people may well be unaware of the new app, but that was clearly explained on the new signage.

- *Referencing page 277 of the document pack, a Member noted that the Car Parking and City Centre service plan referred to the undertaking of a SWOT analysis to assess each car park. That had not yet been carried out, and he highlighted the associated risk exposure for the authority.*

The Deputy Chief Executive pointed out that the assessment of car park assets with a view to maximising income streams could be undertaken utilising a range of tools; and, although a SWOT analysis may not have been carried out, that assessment work continued to be done. He assured Members that monitoring of car parking income and expenditure was taking place on a regular basis.

The Chairman welcomed the reasonable assurance opinion attributed to the audit review.

#### Audit of Flood Related Procurement (Reasonable Assurance Opinion)

#### Audit of Early Release and Voluntary Redundancy Scheme (Reasonable Assurance Opinion)

The Chairman noted that, in general, good controls were in place around the governance of flood related procurement; and the Early Release and Voluntary Redundancy Scheme.

#### Audit Follow Up of Homeworking Arrangements (Reasonable Assurance Opinion)

- *Given that this was a follow up audit, should the recommendations have been fully implemented by now; and had a review date been identified?*

The Audit Manager (Cumbria Shared Internal Audit Service) indicated that the audit did not include a Management Action Plan. There was therefore no specific date for review.

The Chief Finance Officer added that, although there would be no formal follow up, the new in house Internal Audit team would pick up any recommendations and report on progress.

- *The improvements agreed as part of the initial audit included the undertaking of risk / health and safety assessments and formal review thereof. Had that been addressed?*

In response, the Chief Finance Officer confirmed that the issue had been addressed and the Safety, Health and Environmental Manager had actioned the required safety audits.

In conclusion, the Chairman welcomed the reasonable assurance opinion given.

#### Audit of Disabled Facilities Grants (Reasonable Assurance Opinion)

The Committee received the Audit Review.

#### Audit of Asset Acquisitions and Disposals (Substantial Assurance Opinion)

The Deputy Leader, and Finance, Governance and Resources Portfolio Holder emphasised that the acquisition and disposal of assets was a key priority for the City Council. The excellent work undertaken by Officers and good controls in place had resulted in income generation in the sum of £1.6 m.

The Corporate Director of Governance and Regulatory Services noted the substantial assurance opinion which reassured him that good governance arrangements were in place. He also emphasised the excellent work undertaken by staff in the management and control of valuable public assets.

*Members acknowledged that the asset acquisition and disposal programme was key for the authority and were reassured by the excellent work done in that area.*

#### Audit of Mobile Device Security (Partial Assurance Opinion)

- *Members expressed concern that instances had arisen whereby the audit work was impaired due to the unavailability of Council staff; and questioned whether ICT had the necessary capacity to undertake the work or whether additional support and resources were required.*

In response, the Chief Executive explained the circumstances which had led to the unavailability of ICT staff, adding that he would have taken steps to try to rectify the situation had he been alerted to the difficulty earlier in the process.

The Chief Executive did not consider that capacity was an issue within ICT Services. Both ICT management and he needed to take responsibility for addressing the recommendations emanating from the audit review.

- *What were the next steps in terms of progressing the review?*

The Chief Finance Officer replied that Internal Audit would undertake a follow up review and report back to the Committee in due course.

The Chief Executive indicated that, as a result of the implementation of Microsoft Office 365 and cloud based infrastructure, increased numbers of staff would be utilising mobile devices. Significant work remained to be done to provide the necessary assurance around information security and the security of mobile devices.

- *Criminals posed a real and increasing threat in terms of information / data security. How secure were the authority's ICT systems and applications both now and in the future?*

In response, the Chief Executive provided an overview of the systems control / testing undertaken in compliance with the required regulations and codes of practice. Notwithstanding that it was acknowledged that both the Audit Committee and senior management needed to be reassured that the Council's network was protected.

- *Developments in ICT and associated security threats continually evolved to an extent where it was difficult to keep pace. The focus should therefore be on staff awareness and monitoring.*

The Associate Director (Grant Thornton) stated that cyberattacks posed a real and significant risk and the Committee should not underestimate the importance of that emerging risk area.

The Associate Director added that Falanx Cyber Defence had prepared a report on cybercrime, and he was happy to share that information with Members of the Committee.

- *The Council was in the process of establishing an Information Officer post (as required from 2018 by the European General Data Protection Regulations 2016). When would that postholder be in place?*

The Corporate Director of Governance and Regulatory Services explained that the issue had been raised in discussion with the other Cumbrian authorities, and that the job description was in the process of being finalised.

The Chief Executive updated Members on the talks which had taken place at the Chief Executives' Group. He also emphasised the importance of information management and security, and the need to adequately resource that aspect of the authority's work.

Members were reassured by the responses provided.

#### Audit of Performance Management (Partial Assurance Opinion)

- *It was pleasing to note, as evidenced by the Action Plan, that significant progress had been made against all three of the high priority recommendations and that progress was also being made on a range of other performance management activities.*

In response, the Deputy Chief Executive provided a brief overview of the background to and scoping of the audit review; the positive close out meeting; and significant progress achieved to date. Although the audit review was valuable, he believed that greater attention needed to be given to the timing of such reviews moving forward.

The Policy and Performance Manager informed the Committee that the new performance reporting template had been used in the last cycle, placing greater emphasis on SMART objectives and Carlisle Plan actions. Work was ongoing with a view to ensuring synchronisation of the reporting cycles.

- *A Member was most impressed by the work undertaken by the Deputy Chief Executive and his staff in the aftermath of the December 2015 floods, and questioned whether that had impacted upon the capacity of officers to deliver on other scheduled areas of work. He also questioned when the Committee could expect a follow up on the audit review.*

The Deputy Chief Executive did not consider that the floods had a direct effect and was of the opinion that sufficient resources were in place to deliver the agreed Action Plan. Clearly there were challenges around effective performance management, but considerable progress was being made.

In terms of that latter point, the Designated Head of Internal Audit said that the audit follow up would take account of the implementation dates set out within the Performance Management Action Plan.

- *A Member stressed the importance of Recommendation 2 (page 363) – management should ensure that the performance management arrangements regarding the Carlisle Plan were effectively implemented and that those were incorporated into the Performance Management Framework.*

The Deputy Leader, and Finance, Governance and Resources Portfolio Holder reminded Members that the Council's global report template included a section entitled "contribution to the Carlisle Plan Priorities" which report authors had to complete prior to the submission of their reports to Council / Committees. The Executive could therefore see evidence of delivery against Carlisle Plan priorities.

The Deputy Leader noted that there had been an issue around service planning, and that work to address that was ongoing.

#### Audit of Physical Security of Buildings (Partial Assurance Opinion)

- *Section 4.4.1 recorded that the aims and objectives for the physical security of premises were not clearly defined, documented or communicated. Action was therefore required to rectify the position.*

In response, the Audit Manager (Cumbria Shared Internal Audit Service) explained that there was a good awareness amongst officers, and that the issue related to the recording process.

The Corporate Director of Governance and Regulatory Services emphasised the importance of noting that (with one exception) security had been maintained within the existing system at the Civic Centre since 1974. Whilst the Director accepted that the Audit had raised issues which would be addressed, he remained to be convinced that those would lead to a service improvement.

RESOLVED – That the Audit Committee:



- (1) Noted the progress on the 2016/17 Audit Plan as detailed at Section 2 of Report RD.12/17.
- (2) Received the final audit reports for 2016/17, subject to the following:

#### Audit of Asset Acquisitions and Disposals

The Committee welcomed the substantial assurance opinion given in response to the audit; and the excellent work undertaken by Officers.

#### Audit of Mobile Device Security

- (a) The Committee acknowledged the fast moving nature of information technology and, in particular, the need for ongoing awareness of the continually evolving and increased threat from cybercrime;
- (b) The Committee welcomed the establishment of an Information Officer post in due course;
- (c) Members looked forward to submission of a follow up report on implementation of the audit recommendations at a future meeting of the Committee.

#### Audit of Performance Management

- (a) The Committee was pleased to note that significant progress had been made against all three of the high priority recommendations cited within the Action Plan which would guide delivery of the Carlisle Plan;
- (b) Members looked forward to submission of a follow up report on implementation of the audit recommendations at a future meeting of the Committee.

#### Audit of Physical Security of Premises

The Audit Committee looked forward to receiving the necessary assurance regarding implementation of the recommendations identified during the audit review by way of the submission of a formal follow up report in due course.

### **AUC.25/17      INTERNAL AUDIT ANNUAL REPORT 2016/17**

The Audit Manager (Cumbria Shared Internal Audit Service) submitted report RD.13/17, the purpose of which was to give his opinion as the Audit Manager for Carlisle City Council on the adequacy and effectiveness of the Council's systems of risk management, governance and internal control from the work undertaken by Internal Audit for the year ended 31 March 2017.

Subject to the caveats detailed at paragraphs 2.3 and 2.4, the Audit Manager's opinion was that Carlisle City Council's overall framework of governance, risk and internal control was reasonable and audit testing had confirmed that controls were generally working effectively in practice. He could further confirm that Internal Audit had maintained its independence during the year.

The Audit Manager (Cumbria Shared Internal Audit Service) summarised the position following changes to the Internal Audit Plan approved by the Committee during the year.

Following those changes the revised 2016/17 plan included 16 risk-based audits, 15 of which had been completed. It had not been possible for the Shared Service to conclude the audit of NNDR (Business Rates) in the time and resource available up to the date of providing the

annual opinion (30 June 2017). Given the end of Carlisle City Council's participation in the Shared Audit Service from 31 March 2017, it was not considered appropriate for the Shared Service to undertake further work which would not form part of the audit opinion for 2016/17. The Audit Manager recommended that the Audit Committee should oversee completion of that audit by the in-house service to ensure that the expected assurance was received.

In light of the above, the 2016/17 audit opinion was based on the 15 completed audits from the 2016/17 plan and 5 from the 2015/16 plan which were finalised in 2016/17 and not included in the 2015/16 annual report. It was his opinion that that level of coverage was sufficient to provide an audit opinion.

Overall levels of assurance for the 20 completed audits were: Substantial – 3 (15%); Reasonable – 12 (60%); Partial – 5 (25%). There were no limited assurance reports.

Details of the audit work completed over the year were provided at Appendix A.

The Audit Manager (Cumbria Shared Internal Audit Service) also explained that the risk based approach was designed to ensure that all internal audit work was conducted in accordance with the Public Sector Internal Audit Standards. A Quality Assurance and Improvement Programme was a recognised area for development within the Internal Audit Shared Service and outcomes from that were summarised at Appendix C.

A set of performance indicators was established by Internal Audit Management and agreed by the Shared Services Operational Board to enhance performance monitoring arrangements. The Audit Committee had received performance measures as part of the in-year progress reporting arrangements and Appendix B summarised the year end performance against the agreed criteria.

RESOLVED – That the Audit Committee noted:

- The progress achieved in 2016/17 in delivering the Audit Plan and the outcomes of completed audit reviews set out in Appendix A to Report RD.13/17.
- The Audit Manager's opinion of reasonable assurance on the Council's overall systems of governance, risk management and internal control for the year ended 31 March 2017.
- The Audit Manager's declaration of Internal Audit independence as required by the mandatory PSIAS.
- The Audit Manager's declaration of conformance with the mandatory PSIAS.
- The performance of the Internal Audit Shared Service as shown in Appendix B.
- The outcomes of the Quality Assurance and Improvement Programme in Appendix C.

The Chairman announced that this was the last meeting of the Audit Committee at which the Audit Manager and Principal Auditor (Cumbria Shared Internal Audit Service) would be present. She thanked the Officers for their work and extended best wishes for the future.

The Audit Manager and Principal Auditor (Cumbria Shared Internal Audit Service) then retired from the meeting.



## **AUC.26/17      INTERNAL AUDIT PROGRESS QUARTER 1 – 2017/18**

Following an introduction by the Designated Head of Internal Audit, the Chairman welcomed the Principal Auditor to the meeting.

The Designated Head of Internal Audit submitted report RD.11/17 providing an overview of the work carried out by Internal Audit in the period April to June 2017. Members were reminded that Internal Audit returned to an in-house provided service from 1 April 2017 with two auditors transferring to the Council from the County Council. Recruitment of a Principal Auditor was also successful and the post holder started on 15 May 2017.

The Audit Plan for 2017/18 was agreed at the last Committee in March 2017. Delivery of the plan had started; however, the two auditors transferred from the County Council had concentrated their efforts on completing outstanding audit work for the 2016/17 Audit Plan in the first quarter. Progress had been made on establishing the policies and procedures required for the new in-house service, including establishing an Audit Manual, a Risk based methodology, working paper templates and time recording system.

Details of progress against the 2017/18 Audit Plan were as shown at Appendix 1. It was likely that the first reports would be issued in the summer and reported to the Committee at its September meeting. It was proposed to also review the Audit Plan at that meeting to reflect the requirement to complete 2016/17 audit work, take account of any further follow up requirements and also to update the expected resources availability.

The Designated Head of Internal Audit advised that, as requested by the Committee, a formal follow up was undertaken of the Records Management Audit recommendations previously reported to the Committee (Appendix 2). Significant progress had now been made against the recommendations which it was hoped would reassure Members.

Internal Audit had conducted an informal review of petty cash and mileage claims. A review of claims and expenditure incurred found that, although there were instances where proper procedures had not been followed for re-imbursement of petty cash, there were no instances of any fraudulent activity. Following the review a general reminder was issued to all staff outlining the correct procedures for petty cash claims and mileage claims.

In order to provide an effective Internal Audit service, there needed to be an effective measure of the performance achieved. It was therefore proposed to set the same indicators reported in 2016/17 as measures of the performance of Internal Audit, details of which were set out at paragraph 3.1. The usefulness of those indicators would be reviewed during 2017/18 and Members' comments were welcomed.

The Designated Head of Internal Audit then outlined the changes incorporated within the proposed new report template attached at Appendix 3. He suggested that Members may wish to await their September 2017 meeting when actual reports were available before taking a decision on the level of detail required.

A new Internal Audit Manual and guidelines had been created as part of the establishment of the new in-house service. The Risk Based Methodology guidelines for use by the service were included at Appendix 4 for information.

Attention was further drawn to Appendix 5 which showed a summary position of outstanding audit recommendations and progress made against implementing the same. There were no completed recommendations to report to the Committee, however progress had begun in

obtaining updates against actions where necessary and the outcome thereof would be reported in September 2017.

In response to a question, the Policy and Communications Manager confirmed that he would check that the Records Management Policy was being implemented in each Directorate.

The Chairman commented that the reassurance provided did impact upon the Committee's perspective moving forward.

**RESOLVED – That the Audit Committee:**

1. Noted the progress against the Audit Plan for 2017/18 set out within Report RD.11/17.
2. Had considered the proposed new report template and welcomed the improved layout (including the scope section to include specific risk areas); Members would come to a view as regards the level of detail required at the September 2017 meeting.
3. Welcomed the submission of the Risk Based Audit Methodology (Appendix 4) which aided Members' understanding.
4. Noted the partial assurance level attributed to the Follow Up Audit of Records Management, but was somewhat reassured to note the progress made on implementation of the audit recommendations; and that a follow up report would be presented in due course.

The meeting adjourned at 11.34 am and reconvened at 11.40 am

## **AUC.27/17      EXTERNAL AUDIT UPDATE REPORT 2016/17**

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

Members' attention was drawn to progress at June 2017 in terms of:

- the Audit Fee Letter; and the 2016/17 Accounts Audit Plan
- the interim accounts audit – Grant Thornton's interim work was complete and they had undertaken early substantive work where it was relevant and efficient to do so. Issues arising from the review of Information Technology controls were reported in the external audit update report (16 March 2017). Follow up of agreed recommendations would form part of their planned work for the 2017/18 audit. There were no other issues arising of significance from the interim work and the results were reported in the Audit Plan shared with the Committee on 16 March 2017.
- the 2016/17 final accounts audit – the authority was to be commended in trialling the early closedown and audit of accounts by 31 July 2017, a year ahead of the mandated change in deadlines
- Value for Money conclusion – as part of Grant Thornton's work on the VFM conclusion, in January 2017 they had requested and were still awaiting the Council's assessment of the Minimum Revenue Provision calculations which formed part of the Medium Term Financial Plan savings assumptions.
- Annual Audit Letter; and Housing Subsidy Return

The Audit Manager reminded Members that copies of Grant Thornton's publication entitled 'The Income Spectrum' had been provided at their last meeting.

Referencing The Income Spectrum publication, the Deputy Leader, and Finance, Governance and Resources Portfolio Holder was reminded of the extremely challenging financial situation in which local authorities found themselves.

The Deputy Leader stated that there was a clear need for Members to manage their expectations given the significant reduction in staffing levels within the City Council. He was mindful of the pressure placed on staff and commented upon the need for a balance between the control of paperwork and service delivery.

The Chairman responded that the Audit Committee appreciated the situation which was why questions were raised in relation to capacity in certain areas. Nevertheless the role of the Committee included gaining an assurance on areas where there may be a reduction in performance.

The Associate Director (Grant Thornton) undertook to take on board a Member's request for the inclusion of a glossary within future reports.

The Associate Director (Grant Thornton) concluded this item of business by summarising the work undertaken by Grant Thornton in relation to leadership models. He then circulated copies of their publication – "Setting up a social enterprise" for Members' information.

RESOLVED – That the Audit Committee noted and received the content of the External Audit Progress and Update Report for the year ended 31 March 2017.

#### **AUC.28/17      AUDIT FEE LETTER 2017/18**

The Associate Director (Grant Thornton) presented the Audit fee letter for 2017/18. He explained that:

- The Public Sector Audit Appointments Limited (PSAA) had set the 2017/18 scale audit fees at the same level as the scale fees applicable for 2016/17. The City Council's scale fee for 2017/18 had been set at £53,290; and
- At the request of the Department for Work and Pensions, auditors appointed by PSAA would continue to certify local authority claims for housing benefit subsidy for 2017/18. The Council's indicative fee for that certification work had yet to be set by PSAA but was anticipated to be around £13,000 to £15,000.

Details of the scope and timing of the work, together with the key Team Members were provided.

The letter also recorded that from 2018/19 PSAA had been specified by the Secretary of State as an appointing person for principal local government and police bodies and would make auditor appointments.

Speaking at the invitation of the Chairman, the Associate Director (Grant Thornton) provided a brief update on the process for the appointment of the Council's auditors. Following the award of contracts to audit firms in June 2017, the PSAA would consult on and confirm auditor appointments to opted-in bodies from 2018/19 between August and December 2017. Copies of the PSAA paper on the matter could be circulated to the Committee.

The Associate Director and the Chief Finance Officer then responded to Members' questions regarding the appointment process.

RESOLVED – That the Audit Committee noted and received the Audit Fee Letter for 2017/18.

#### **AUC.29/17      ANNUAL GOVERNANCE STATEMENT**

The Chief Finance Officer submitted report RD.08/17 providing the City Council's Annual Governance Statement for 2016/17. The Annual Governance Statement (subject to Audit) had been certified by the Council's S151 Officer, Chief Executive and Leader, in accordance with statutory requirements, by 30 June 2017 and would be formally approved following completion of the audit process.

The Chief Finance Officer informed Members that there was only one area of significant weakness, Records Management, in the Council's Governance arrangements which had previously been reported to Members. Although significant progress had been made on improving the records management framework, which had been monitored by Members of the Audit Committee during both 2015/16 and 2016/17, Members requested that a follow up audit review be undertaken to provide them with the required level of assurance from Managers to ensure that the recommended improvements had been made. The results of that audit review report would be considered elsewhere on the agenda and, at this stage, the matter continued to be recorded as a significant weakness and therefore continued to be included in the draft Annual Governance Statement for 2016/17.

Information on the Audit Manager's opinion of reasonable assurance on the Council's overall systems of governance, risk management and internal control for the year ended 31 March 2017; the Good Governance Framework; and the preparation and monitoring of a Governance Action Plan was set out at Sections 2 and 3. There were no new areas of risk arising from the Audit reviews or from the Risk Registers that needed to be drawn to Members' attention.

The Chairman was pleased to note that a new performance framework had been developed during 2016/17 and would be in place for 2017/18.

RESOLVED – (1) That the Audit Committee noted the content of the 2016/17 Annual Governance Statement, noting that the Statement would accompany the Annual Statement of Accounts following the audit process.

(2) That the Committee looked forward to receiving an update on the local Code of Corporate Governance at their September 2017 meeting.

#### **AUC.30/17      STATEMENT OF ACCOUNTS 2016/17**

The Deputy Chief Finance Officer presented report RD.10/17 enclosing the Council's Statement of Accounts 2016/17 (subject to audit) which had been certified by the S.151 Officer in accordance with statutory requirements by 30 June 2017. They would now be subject to audit, which must be concluded by the statutory deadline of 30 September 2016.

The Statements reflected the summarised financial outturn information recently considered by the Executive and Resources Overview and Scrutiny Panel. However, because of the different way in which the Accounts must be produced, it was very difficult to see the outturn figures within the Income and Expenditure Account. A reconciliation between the outturn figures and the net operating expenditure on the Income and Expenditure Account had been prepared and was attached at Appendix 1 for information.

The Deputy Chief Finance Officer reminded Members that, at the Audit Committee meetings in January and April 2017, the Chief Finance Officer had reported that the main changes to the Accounts for the 2016/17 financial year were the introduction of new disclosures on Expenditure and Funding Analysis which could be found at Note 4.14; and also changes to the reporting requirements in the Comprehensive Income and Expenditure Statement detailed at 3.1 of the unaudited accounts.

As part of the Council's training programme training sessions for Members and substitutes of the Audit Committee on the Role of the Audit Committee and scrutiny of the Statement of Accounts process including the Annual Governance Statement had taken place on 29 June and 10 July 2017. Key issues and the practical implications for scrutinising the Statement of Accounts were provided.

The Annual Governance Statement would accompany the Annual Statement of Accounts following the audit process and was included elsewhere on the agenda for consideration. It was a requirement of the 2016 Code that the Annual Governance Statement be considered and approved separately. The Statement of Accounts 2016/17 (subject to audit) was attached at Appendix 2.

Referencing Section 4.3, the Deputy Chief Finance Officer summarised the key issues within the Statement of Accounts to which Members' attention was drawn. In particular, he highlighted the items of note relative to the cost of services; the balance sheet; current assets; current liabilities; long term liabilities; and the Collection Fund, and provided a detailed explanation on each aspect.

The Deputy Leader, and Finance, Governance and Resources Portfolio Holder thanked the Financial Services Team for their work.

The Chairman expressed Members' appreciation of the good training provided to assist them in scrutinising the accounts. She further welcomed the positive financial position recorded.

**RESOLVED – That the Audit Committee:**

- (1) Noted the 2016/17 Statement of Accounts, which had been certified as giving a true and fair view by the Chief Finance Officer, and would now be subject to audit.
- (2) Noted that the Annual Governance Statement would be considered and approved separately from the Statement of Accounts as specified in the Accounts and Audit Regulations 2015.
- (3) Endorsed the sentiments expressed by the Deputy Leader, and Finance, Governance and Resources Portfolio Holder regarding the good work undertaken by the Financial Services Team, which had enabled the Accounts to be signed off on 31 May 2017 (a month before the statutory deadline).

The Deputy Chief Finance Officer also submitted the following reports for information:

**(a) Provisional General Fund Revenue Outturn 2016/17**

Report RD.03/17 summarising the provisional outturn for the General Fund Revenue Budget and providing reasons for variances. The outturn position showed that the net underspend for Council services as at 31 March 2017, once items to be carried forward / transferred to reserves totalling £800,300 and accounting treatment changes of £1,202,906 were taken into account, was £441,832.



The Executive and the Resources Overview and Scrutiny Panel had considered the matter on 5 June and 13 June 2017 respectively and the decisions were set out in Minutes EX.41/17 and ROSP.44/17.

#### **(b) Provisional Capital Outturn 2016/17 and Revised Capital Programme 2017/18**

Report RD.04/17 summarising the 2016/17 provisional outturn for the capital budget and providing details of the revised capital programme for 2017/18. The outturn showed that the net underspend for Council services as at 31 March 2017 once committed expenditure totalling £4,406,000 was taken into account was £2,475.

The Executive and the Resources Overview and Scrutiny Panel had considered the matter on 5 June and 13 June 2017 respectively and the decisions were set out in Minutes EX.42/17 and ROSP.45/17.

RESOLVED – That Reports RD.03/17 and RD.04/17, together with the references from the Executive and Resources Overview and Scrutiny Panel, be noted.

#### **AUC.31/17 TREASURY MANAGEMENT OUTTURN 2016/17**

The Deputy Chief Finance Officer began by introducing to Members the Principal Accountant who was responsible for treasury management.

The Deputy Chief Finance Officer then submitted the Annual Report on Treasury Management (RD.05/17), as required under both the Financial Procedure Rules and CIPFA Code of Practice on Treasury Management. The regular report on Treasury Transactions for the period 1 January 2017 - 31 March 2017 was also submitted.

The Deputy Chief Finance Officer highlighted in particular the good performance of the CCLA Property Fund; together with the continued close monitoring of credit ratings for banks and building societies.

Developments in the money markets over the previous 12 months and their effect on the Council's investments, together with various performance statistics were also included within the report. Attention was also drawn to the outstanding investments as at 31 March 2017, as detailed on pages 262 and 263 of the document pack.

The Executive and the Resources Overview and Scrutiny Panel had considered the matter on 5 June and 13 June 2017 respectively and the decisions were set out in Minutes EX.43/17 and ROSP.46/17.

A Member commented upon the excellent work undertaken by the Principal Accountant and asked that thanks be also conveyed to other Officers involved.

Another Member was proud to announce that representatives of other local authorities recognised the prudent financial management undertaken at the City Council.

The Deputy Leader, and Finance, Governance and Resources Portfolio Holder echoed the sentiments expressed. He was extremely impressed by the level of professionalism displayed by the Principal Accountant in undertaking her responsibilities.

RESOLVED – That Report RD.05/17 be noted and received.



## **AUC.32/17      EFFECTIVENESS REVIEW OF THE AUDIT COMMITTEE**

The Chief Finance Officer submitted report RD.09/17 concerning the effectiveness review of the Audit Committee undertaken on 19 April 2016 in line with the CIPFA Guidance for Local Authority Audit Committees. She summarised the background position, highlighting the agreement reached at that meeting that a workshop be set up to discuss the improvement plan actions to agree a specific implementation plan. That workshop subsequently took place on 11 April 2017.

The Chief Finance Officer advised that the workshop was well attended by six Members and three Officers and concentrated on the Terms of Reference for the Committee; Skills Based Framework and Training Programme; raising the profile of the Committee; and the Assurance Matrix.

The Terms of Reference for the Audit Committee were discussed and reviewed at the workshop with the required changes subsequently reported to and approved by full Council on 15 May 2017 as part of the Council's Scheme of Delegation for 2017/18.

Attention was further drawn to Section 2, which recorded that a skills based framework and a specific training programme had been considered resulting in the agreement of a number of future actions. Furthermore, the format and structure of the Audit Committee meetings and briefing meeting sessions were debated. Members' views were requested in respect of those issues listed at Section 2.3.

Following a recommendation from the external review, the issue of raising the profile of the Audit Committee was considered at the workshop with the suggestions identified at Section 2.3.

The final issue considered briefly was the integrated assurance framework which the external facilitator provided with a request that Members determine whether that could be incorporated into the Committee's assurance work. It was agreed at the workshop that the assurance matrix should form part of the work programme of the Internal Audit team who could populate the sources of assurance and the three lines of defence for consideration by a future meeting of the Committee.

The Corporate Director of Governance and Regulatory Services provided details of the Business Management and Development group which was a recently established sub-group of the Senior Management Team. That sub-group had, as part its remit, responsibility for Governance issues within the authority and was attended by Officers from Governance and Resources.

Discussion arose during which the following observations were raised in response to the proposals at Section 2.3:

- 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.

In terms of the integrated assurance framework, the Associate Director (Grant Thornton) advised that Allerdale Borough Council had in place a robust framework around the three lines of defence. The framework was considered to be best practice and would be of assistance to the Committee in their decision making on that aspect.

RESOLVED – That, subject to the observations detailed above, the Audit Committee noted the comments and proposals discussed at the workshop to inform future actions to improve the effectiveness of the Committee.

### **AUC.33/17      CORPORATE RISK MANAGEMENT**

The Chief Finance Officer reported (CS.17/17) that the Resources Overview and Scrutiny Panel had, on 13 April 2017, considered and noted Report CS.09/17 providing an update on the Corporate Risk Register.

The Corporate Risk Management Group (CRMG) was responsible for delivering and reviewing the Risk Management Strategy, maintaining and improving risk management processes as well as the Council's Corporate Risk Register.

The Chief Finance Officer highlighted the three risks set out at pages 463 to 465 of the document pack, adding that the Risk Register was subject to review and updated on a continuous basis. The first meeting of the newly established Risk Management sub group had taken place. The group's remit included consideration of operational risk.

RESOLVED – That the Audit Committee noted the content of Report CS.17/17 as evidence of the continuing commitment to and culture of sound governance arrangements for corporate risk management.

### **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 1 of Schedule 12A of the 1972 Local Government Act.

### **AUC.34/17      IMPLEMENTATION OF RISK BASED VERIFICATION** (Public and Press excluded by virtue of paragraph 3)

The Revenues and Benefits Operations Manager submitted private report CE.08/17 concerning the implementation of risk based verification.

The Revenues and Benefits Operations Manager outlined, in some detail, the background position, the proposals before Members for consideration, together with the approach to consultation (Sections 1, 2 and 3 referred).

He further explained that, in order to comply with DWP guidelines it was recommended that the Committee approve with immediate effect the implementation of risk based approach to Housing Benefit and Council Tax Reduction administration in Carlisle.

The Committee then gave consideration to the Risk Based Verification Policy; evidence categories by risk; and the assessment process flow chart, copies of which were appended to the report.

During discussion on the issue of high risk claims, Members were of the opinion that consideration should be given to the inclusion of an authorisation process prior to any decision to de-escalate any system identified risk category.

The Corporate Director of Governance and Regulatory Services; the Chief Finance Officer; the Revenues and Benefits Operations Manager; and the Associate Director (Grant Thornton) responded to questions.

The Deputy Leader, and Finance, Governance and Resources Portfolio Holder; and the Chief Finance Officer confirmed their support for the proposals.

RESOLVED – That the Audit Committee:

1. Noted the Section 151 Officer's recommendation and agreement contained within Report CE.08/17.
2. Approved and 'signed off' the Risk Based Verification Procedure set out in Appendix A to the Report.
3. Recommended that consideration be given to the inclusion of an authorisation process prior to the de-escalation of system identified risk categories.

[The meeting ended at 1.00 pm]

## **AUDIT COMMITTEE – SPECIAL MEETING**

**MONDAY 31 JULY 2017 AT 10.00 AM**

**PRESENT:** Councillor Patrick (Chairman), Councillors Mrs Birks, Bowditch, Higgs, Mrs Mallinson and Sidgwick (S)

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

**ALSO  
PRESENT:** Deputy Leader, and Finance, Governance and Resources Portfolio Holder

Associate Director (Grant Thornton)  
Audit Manager (Grant Thornton)  
In Charge Auditor (Grant Thornton)

### **AUC.35/17 WELCOME**

The Chairman welcomed all those present to the special meeting of the Audit Committee.

### **AUC.36/17 APOLOGY FOR ABSENCE**

An apology for absence was submitted on behalf of Councillor Shepherd.

### **AUC.37/17 DECLARATIONS OF INTEREST**

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

### **AUC.38/17 PUBLIC AND PRESS**

RESOLVED – That the Agenda be agreed as circulated.

### **AUC.39/17 EXTERNAL AUDIT FINDINGS REPORT FOR CARLISLE CITY COUNCIL 2016/17**

The Associate Director (Grant Thornton) began by introducing the In Charge Auditor who was a key member of the audit team and responsible for much of the detailed audit work undertaken.

The Associate Director presented a report highlighting the key issues arising from Grant Thornton's audit of the Council's financial statements for the year ended 31 March 2017. The report was also used to present their audit findings to management and the Audit Committee in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260 and the Local Audit and Accountability Act 2014.

The Associate Director was pleased to inform Members that overall the position was very positive. Grant Thornton planned to give an unqualified opinion on the financial statements with no material primary statement misstatements identified. One adjustment for £0.579 million to the primary statements had been identified and amended by management. The error related to classification only and did not impact on the financial position of the authority.

In addition, Grant Thornton was satisfied that in all significant respects, the City Council had put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2017.

Attention was further drawn to page 9 of the document pack which detailed the additional powers and duties for local government auditors. Grant Thornton had not required to exercise those statutory functions.

The Associate Director reported that the draft financial statements and accompanying working papers had been received well in advance of the 30 June 2017 statutory deadline. Prompt responses had also been provided in respect of queries raised. He wished to convey thanks to the authority and, in particular, to the Chief Finance Officer and the Deputy Chief Finance Officer for what had been a fantastic achievement and a significant step forward.

The Associate Director emphasised that the mandated change in the statutory deadline would take effect in 2017/18. It was therefore very important that the Council's Statement of Accounts was certified by 31 May 2018 or earlier.

The Chairman indicated that it was very pleasing to receive such positive feedback.

The Audit Manager (Grant Thornton) endorsed the sentiments expressed by the Associate Director which were testament to the considerable amount of work undertaken over a four week period.

The Audit Manager provided an overview of the key audit and financial reporting issues set out within the Executive Summary. In conducting the audit, it had not been necessary to alter or change the planned audit approach, communicated to the Committee in the External Audit Plan dated 16 April 2017. She added that (at the time of compilation of the report) the audit was substantially complete, although the procedures in the areas identified on page 9 were being finalised.

The Audit Manager also highlighted:

- The adjustment identified to the primary statements alluded to by the Associate Director. The error related to a misclassification only in the Comprehensive Income and Expenditure Statement and did not impact upon the net financial position of the authority.
- Based on Grant Thornton's review of the Council's Narrative Report and Annual Governance Statement, they were satisfied that those were consistent with the audited financial statements. They were further satisfied that the Annual Governance Statement met the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report were in line with the requirements of the CIPFA Code of Practice.

Amendments were made to the Annual Governance Statement to improve the links to the principles in the CIPFA/SOLACE Delivering Good Governance 2016 guidance. A recommendation was made in the Action Plan for the Council to update the local Code of Governance to reflect the revised principles in the revised guidance.

- As reported in their Audit Plan, Grant Thornton determined overall materiality to be £1.141 million (being 1.75% of revenue expenditure – cost of services). They had considered whether that level remained appropriate during the course of the audit and had made no changes.
- The audit findings against significant risks; accounting policies, estimates and judgements; and other communication requirements outlined at pages 14 to 21 of the document pack.

The In Charge Auditor referred to the table at pages 24 – 26 which set out misclassification and disclosure errors identified during the audit, which had been changed in the final set of financial statements. He outlined, in particular, adjustments 2, 3, 5, 7 and 10 for the benefit of the Committee.

The Audit Manager (Grant Thornton) continued by summarising:

- The recommendations contained within the Action Plan, together with the management response thereto (Appendix A referred).
- The work undertaken in relation to the value for money conclusion. A recommendation had been made in the Action Plan for external audit to receive the Council's consideration of the Minimum Revenue Provision treatment for 2017/18. That had been received and a technical review could now be undertaken.
- The final audit fees charged for the audit. It should be noted that the grant certification fee was still an estimate as their work on the Council's housing subsidy claim was ongoing and would not be finalised until November 2017.
- The draft proposed audit opinion set out at Appendix B.
- The glossary provided at the request of a Member, which would be utilised moving forward (Appendix C referred).

The Audit Manager concluded her presentation by expressing appreciation for the way in which the Accounts had been prioritised by the City Council. She thanked Financial Services Officers for their input.

The Deputy Chief Finance Officer confirmed that all of the items outlined had been amended. In terms of recommendation 3 he confirmed that a full review of the lease packets was undertaken following the issue being raised by the auditors and to ensure that the 2016/17 accounts were stated correctly. Where necessary, dates and inception values had been amended and the working paper adjusted.

The Deputy Chief Finance Officer also welcomed the very positive audit and reciprocated thanks to Grant Thornton for the good working relationship which was in place.

Discussion arose, during which the following observations / questions were raised:



- *A Member recognised the very stringent and challenging demands placed on local authorities in terms of financial accountability. She congratulated Financial Services Officers for their exceptional work in realising the achievement of early closedown of the accounts.*

*The Member also paid tribute to the Associate Director and Audit Manager (Grant Thornton) for their input and the good partnership working undertaken.*

*Other Members outlined their appreciation to all concerned.*

The Deputy Leader, and Finance, Governance and Resources Portfolio Holder echoed those sentiments. The Executive had an ambitious plan for economic growth within the Carlisle area which could only be delivered via a sound financial base.

The Deputy Leader wished to place on record his thanks to the Chief Finance Officer, the Deputy Chief Finance Officer, the Principal Accountant, Grant Thornton, and Members of the Audit Committee for their work.

The Chief Finance Officer confirmed that recommendations 1 and 3 within the Action Plan had been implemented; the remainder would be implemented at the year end. She considered that Officers had worked very well with external audit and welcomed the good achievement in terms of the early close down of the accounts.

- *Could Officers identify any risks at this time which may prevent adherence with the statutory deadline for 2017/18?*
- *Internal Audit had returned to an in-house provided service from 1 April 2017. Were all necessary arrangements in place to take the service forward?*

The Chief Finance Officer replied that, as Members were aware, the Accounts and Audit Regulations 2015 would require the City Council's Statement of Accounts for 2017/18 to be certified by 31 May 2018. Financial Services would be working to that timetable or earlier.

The Chief Finance Officer added that there was currently a very good and strong technical team within Financial Services. Potential risks would include any staffing changes which may occur, together with possible changes to the Accounting Code of Practice. She also paid tribute to the work undertaken by the Deputy Chief Finance Officer and Principal Accountant with regard to flood related insurance matters.

On the latter point, she confirmed that the Internal Audit Plan had been considered on 14 July 2017 and that the Designated Head of Internal Audit would update the Committee at their next meeting.

The Audit Manager (Grant Thornton) added that separate meetings took place with the Deputy Chief Finance Officer to ensure that his role as Designated Head of Internal Audit was also covered.

The Associate Director (Grant Thornton) emphasised that the revised close down deadline for 2017/18 would be extremely challenging for external audit. Therefore, if the City Council could work to an earlier date, that would be very helpful. He added that, given the

volume of work involved, submission of the External Audit Findings Report by the reporting deadline would be challenging.

In response, the Corporate Director of Governance and Regulatory Services advised that it was a requirement of the Access to Information Procedure Rules that the Council make copies of agenda and reports open to the public and available for inspection at least five clear days before the meeting in question.

**RESOLVED – That the Audit Committee:**

(1) Noted and received the very positive External Audit Findings Report for the year ended 31 March 2017.

(2) Welcomed the unqualified opinion on both the Financial Statements and the Value for Money conclusion.

(3) Recognised the good work undertaken by the Financial Services Team and the considerable success in achieving the early close down a year ahead of the mandated change in deadlines; it was hoped that success would be replicated for 2017/18. The Committee was also most appreciative of the contribution of the Associate Director; the Audit Manager; and the In Charge Auditor (Grant Thornton).

#### **AUC.40/17      STATEMENT OF ACCOUNTS 2016/17**

The Deputy Chief Finance Officer submitted report RD.17/17 presenting the Council's Statement of Accounts 2016/17 which had been subject to a two month audit process, (commencing in June and with a statutory deadline date of 30 September 2017). The audit for 2016/17 had been completed by 31 July 2017 as a precursor to the statutory deadline being brought forward to that date for 2017/18.

The Audit was substantially complete with the Auditor's Audit Findings Report (ISA260) being considered elsewhere on the Agenda. That report anticipated providing the Council with an unqualified opinion on both the Accounts and the VFM conclusion. It also detailed any issues found during the course of the audit process, and any amendments required to the Accounts which must be reported and approved by Members of the Audit Committee.

There were six recommendations made by the Auditor relating to the disclosure issues raised in the Audit Findings Report (ISA260). The completed Action Plan would be reviewed and closely monitored during 2017/18.

The Deputy Chief Finance Officer concluded by requesting that the Audit Committee approve the 2016/17 Statement of Accounts, noting that also included the audited Annual Governance Statement.

The Chairman noted that various amendments had been made to the Statement of Accounts and Narrative Statement, and sought clarification of the position as regards the Annual Governance Statement.

The Chief Finance Officer and the Audit Manager (Grant Thornton) explained that, due to the timescales involved, the authority had submitted a draft version of the Annual Governance Statement; Grant Thornton had fed comments back and the Statement was amended accordingly.

The Associate Director (Grant Thornton) added that subsequent to the last meeting of the Committee he had reflected upon the Performance Management Framework, and suggested that it needed to be reworded to reflect the ongoing transitional changes.

RESOLVED – That the Audit Committee approved the 2016/17 Statement of Accounts, noting that also included the amended Annual Governance Statement.

#### **AUC.41/17      LETTER OF REPRESENTATION 2016/17**

The Deputy Chief Finance Officer reported (RD.16/17) that the audit of the Statement of Accounts for 2016/17 was substantially complete with the Auditors' Audit Findings Report (ISA260) having been considered earlier in the meeting. Following approval of that report, the Auditors would issue their formal opinion and the audit process for 2016/17 would be complete.

However, in accordance with Auditing Standards, a Letter of Representation (a copy of which was appended to the report) must also be considered and approved by the Audit Committee prior to the Audit Opinion being provided. Once approved by the Committee it would be signed by the Chief Finance Officer on behalf of the City Council.

Members were asked to approve the Letter of Representation 2016/17.

RESOLVED – (1) That the Audit Committee approved the Letter of Representation for 2016/17.

(2) That the Chief Finance Officer be authorised to sign the same on behalf of the Council.

#### **AUC.42/17      CHAIRMAN'S COMMENTS**

Whilst drawing the meeting to a close, the Chairman welcomed the positive feedback received in terms of the business transacted and thanked everyone for their attendance.

[The meeting ended at 10.37 am]