

AUDIT COMMITTEE

TUESDAY 27 SEPTEMBER 2016 AT 10.00 AM

PRESENT: Councillor Patrick (Chairman), Councillors Higgs, Mrs Mallinson, Mrs Riddle, Ms Williams (as substitute for Councillor Ms Franklin) and Wilson (as substitute for Councillor Bowditch)

OFFICERS: Chief Executive (for Item A.6)
Deputy Chief Executive (for Item A.6)
Director of Governance
Director of Resources (for Items A.6 – B.1)
Director of Economic Development (for Item A.6)
Financial Services and HR Manager
Chief Accountant
Policy and Communications Manager
Building and Estates Services Manager (for Item A.6)
Environmental Health and Housing Manager (for Item A.6)
Legal Services Manager (for Item A.6)

Audit Manager (Cumbria Shared Internal Audit Service) (until 12.20 pm)
Group Audit Manager (Cumbria Shared Internal Audit Service) (until 12.20 pm)

ALSO
PRESENT: Director (Grant Thornton)
Audit Manager (Grant Thornton)

AUC.48/16 WELCOME

The Chairman welcomed all those present to the meeting.

AUC.49/16 APOLOGIES FOR ABSENCE

Apologies for absence were submitted on behalf of Councillors Bowditch, Ms Franklin and Shepherd; Councillor Dr Tickner (Deputy Leader, and Finance, Governance and Resources Portfolio Holder); and the Associate Director (Grant Thornton).

AUC.50/16 DECLARATIONS OF INTEREST

Councillor Mrs Mallinson declared an interest in accordance with the Council's Code of Conduct in respect of Agenda item A.6 – Audit of Housing Benefits Overpayments Recovery. The interest related to the fact that Councillor Mrs Mallinson is a landlady.

Councillor Mrs Riddle declared an interest in accordance with the Council's Code of Conduct in respect of Agenda item A.6 – Audit of Homelife Scheme as she was a customer of Homelife.

AUC.51/16 PUBLIC AND PRESS

RESOLVED – That, in order to facilitate the smooth running of business, Agenda item A.3 (Records Management Update) would be taken prior to Agenda item A.2 (Audit Findings for Carlisle City Council 2015/16).

AUC.52/16 MINUTES OF PREVIOUS MEETING

The Minutes of the meeting of the Audit Committee held on 7 July 2016 were submitted.

Referring to Minute AUC.39/16, the Chairman apologised that timing and resource issues had prevented the briefing on Value for Money / Treasury Management being provided as requested by Members. The Financial Services and HR Manager was considering the matter, together with what training and additional items may be of benefit throughout the year.

RESOLVED – That the Minutes of the meeting of the Audit Committee held on 7 July 2016 be agreed as a correct record and signed by the Chairman.

AUC.53/16 MINUTES OF RESOURCES OVERVIEW AND SCRUTINY PANEL

The Minutes of the meetings of the Resources Overview and Scrutiny Panel held on 4 August and 8 September 2016 were submitted for information.

RESOLVED – (1) That the Minutes of the meetings of the Resources Overview and Scrutiny Panel held on 4 August and 8 September 2016 be noted and received.

(2) That the Committee was pleased to note the improving position as regards sickness absence, as detailed within Minute ROSP.70/16.

AUC.54/16 RECORDS MANAGEMENT UPDATE

Pursuant to Minute AUC.42/16, the Policy and Communications Manager submitted report PC.20/16 providing an update on the record management recommendations within the Code of Corporate Governance Action Plan.

Speaking by way of background, the Policy and Communications Manager confirmed that the recommendations made in the original audit had all been met; and that the ongoing work highlighted the developments which had taken place since the audit.

He also drew Members' attention to the table at Section 1.2 and summarised the completed / ongoing work in the following terms:

Recommendation	Update
R1 - Records Management Policy	The Policy was completed in 2014. A new version had been prepared to reflect the changes following the completion of the restructure.
R2 - Project Group	The initial project group had now been subsumed into the work of service planning and operational risk management. The programme of work forming the 'Digital Vision and Technology Strategy 2015-2020' was now the key area for project work relating to records management.
R3 - Guidance	The Policy detailed roles and responsibilities. Training needs were identified in the cycle of team appraisals (training and personal development).
R4 - Constitution	The constitution would be updated at the next opportunity to reflect the arrangements for records management.
R5 - Disposal Log	A template disposal log was included in the Policy.
R6 - Overall responsibility	Overall responsibility was detailed in the Policy.

The Policy and Communications Manager also outlined the updates on records management; and records management and ICT, as detailed at Sections 2 and 3 of the report.

In terms of the impact of the floods on records management, he informed Members that It was recommended that the Civic Centre basement was no longer used for storage purposes. However, a decision in that regard had yet to be made.

An assessment of the future resilience and building requirements was now almost complete. That would be reported back to Executive (in the first instance). A feasibility report would explore the potential use of the basement and ground floor, resilience adaptations, possible re-design of the first floor and future use and costs of the Civic Centre. Once that report had been discussed by the Joint Management Team then a comprehensive programme would be devised for implementation.

In conclusion, the Policy and Communications Manager asked the Committee to note the updates and current position relating to records management.

The following questions and concerns were raised in discussion:

- *Were the key Data Retention Schedules now in place?*

In response, the Policy and Communications Manager confirmed that work on the high risk areas had been completed some time ago. The service retention schedules (which set out guidance for the retention of records) formed a key part of the Council's Records Management Policy and had now been compiled into a single searchable list and published on Project Server. As had been reported at the Management Briefing Meeting on 7 September 2016, Managers could access and make use of the list of retention schedules. The list could be filtered by Directorate, holding team and function.

It should be noted that this work was not set in stone. It was rather dynamic and may change following discussions with service Managers. Members could, nevertheless, be assured that the Data Retention Schedules were in place.

- *Bearing in mind the previous significant flooding events in Carlisle, a Member expressed concern regarding future use of the Civic Centre basement for storage purposes. She also emphasised the importance of an audit trail for e-mails should freedom of information requests be received, and considered that the Council's IT records should be backed up off site (e.g. the cloud) so that such records could be produced in a timely fashion should the need arise.*

The Director of Governance replied that the basement was not being used and consideration was being given to storage facilities further up the tower. He further clarified the obligations upon the authority in terms of responding to freedom of information requests.

- *Who made the day to day judgement in terms of the retention of hard copy records?*

The Policy and Communications Manager considered that to be a very good point. The records function, which included e-mails, must be dealt with. The advantage of developing systems and moving to cloud based computing was that records were more secure and accessible. He undertook to provide a more detailed response on the manner by which the City Council backed up its systems.

The Chairman indicated that a great deal of excellent and hard work had gone into progressing records management which was recognised by Members. The issue had been around a lack of feedback of that information to the Committee which meant that Members had not been able to gain the necessary level of assurance.

Following discussion, it was agreed that the Committee would await further assurance from the Information Governance Audit Review before removing the item from the Annual Governance Statement.

RESOLVED – (1) That the Audit Committee noted the updates and current position regarding records management as set out within Report PC.20/16.

(2) That the Committee acknowledged the excellent work undertaken and direction of travel with regard to records management, but would await further assurance from the Information Governance Audit Review prior to taking a decision to remove the item from the Annual Governance Statement.

AUC.55/16 AUDIT FINDINGS REPORT FOR CARLISLE CITY COUNCIL 2015/16

The Director (Grant Thornton) 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 2016. 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.

In conducting the audit, it had not been necessary to alter or change the planned audit approach, communicated to the Committee in the Audit Plan on 19 April 2016.

The Director (Grant Thornton) stated that the draft financial statements and accompanying working papers had been received well in advance of the 30 June 2016 statutory deadline. That good performance was particularly pleasing bearing in mind the challenging year

faced by the authority and the Finance Team in responding to the aftermath of the December 2015 floods.

The Director (Grant Thornton) explained that, subject to the completion of final procedures, it was anticipated that an unqualified audit opinion would be provided in respect of the financial statements. She also referenced the amendments; classification / exposure issues; and the new guidance which had been incorporated within the Accounts.

Based upon their review, Grant Thornton was satisfied that, in all significant respects, the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The work specifically undertaken in relation to the value for money conclusion was summarised at Section 3 of the report.

In conclusion, the Director (Grant Thornton) thanked the Financial Services Team for their patience in reaching this point.

The Audit Manager (Grant Thornton) provided an overview of the key audit and financial reporting issues set out within the Executive Summary, including an adjustment identified to primary statements amended by management; two other misstatements not amended by management, which did not impact upon the audit opinion; and the key disclosure note adjustments.

In terms of the key messages, the Audit Manager (Grant Thornton) informed Members that

- The Council had achieved a good standard of compliance in terms of the disclosures required for 2015/16, particularly with the new IFRS13 disclosure requirements relating to investment properties;
- Although there were a number of amendments to the Accounts, most were disclosure issues to existing notes and not omissions;
- The Council had again achieved early closedown, with Accounts authorised for issue on 7 June 2016, which was over three weeks ahead of the specified deadlines;
- De-cluttering of the Accounts occurred prior to the compilation of the statements to aid readability and remove non material disclosure notes;
- Working papers were of a good standard; and
- Quality assurance processes could be improved prior to the authorisation of the draft financial statements.

The Annual Governance Statement had 'records management' as a significant governance area for both 2015/16 and 2014/15. That was despite action taken to monitor the area during 2015/16 by management, with oversight from the Audit Committee. Action Plans were in place to address the matter during 2016/17 with a report having been included for consideration earlier in the meeting.

The Narrative Statement was a new requirement for 2015/16, and the draft version presented for audit was to a good standard. Minor amendments were identified to improve presentation, with further narrative added on value for money and post balance sheet events.

In addition, Grant Thornton was required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Work on that claim was presently in progress and was not due to be finalised until 30 November 2016. To date,

there were no issues to report and the final outcome of that certification work would be reported to the Audit Committee in December 2016.

The Audit Manager (Grant Thornton) then summarised in some detail:

- the Audit findings – highlighting the concept of materiality; the two presumed significant risks applicable to all audits; the two other identified significant risks of material misstatement; the recommendation within the Action Plan regarding the need to carry out a review of income recognition; other communication requirements; adjusted and unadjusted misstatements; and the misclassifications and disclosure changes.
- the work undertaken and key findings in relation to the value for Money conclusion
- other statutory powers and duties

In conclusion, the Audit Manager (Grant Thornton) thanked the Financial Services and HR Manager, the Chief Accountant and their staff for their work during what had been a particularly intense period.

The Chairman questioned whether the classification error of £34.002 million was partly due to the additional pressures faced by Financial Services Officers following the floods.

The Financial Services and HR Manager did not believe so. She outlined the quality review processes currently undertaken, adding that an enhanced process would be put in place for the 2016/17 accounts onwards as detailed within the Action Plan.

The Chief Accountant also clarified the position regarding the two un-adjusted misstatements, reiterating that those did not affect the bottom line on the balance sheet.

RESOLVED – That the Audit Committee:

(1) Noted and received the positive Audit Findings Report for the year ended 31 March 2016.

(2) Welcomed the unqualified opinion on both the financial statements and the Value for Money conclusion.

(3) Approved management's proposed treatment of the unadjusted misstatements detailed within the table on page 21 of the report.

(4) Recognised the good work undertaken by the Financial Services Team, including work on the Narrative Statement which was a new requirement for 2015/16 and in the aftermath of the December 2015 floods; and requested that the thanks of the Committee be conveyed to all those involved in the preparation of the Council's financial statements and audit process. The Committee was also most appreciative of the contribution of the Director and Audit Manager (Grant Thornton).

AUC.56/16 STATEMENT OF ACCOUNTS 2015/16

The Chief Accountant submitted report RD.28/16 presenting the Council's Statement of Accounts 2015/16 which had been subject to a three month audit process, (commencing in July and with a statutory completion date of 30 September 2016).

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.

The Chief Accountant highlighted, in particular, the £34m disclosure amendment together with the new note concerning valuation techniques used to determine level 2 and 3 fair values for investment properties, details of which were set out on pages 130 and 151 of the agenda document pack.

He added that 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 2016/17.

The Chief Accountant then thanked the Auditors for their work during what had been an intense four week period.

The Committee was asked to approve the 2015/16 Statement of Accounts, noting that also included the audited Annual Governance Statement.

In response to a question, the Chief Accountant confirmed that Section 1.9 (Events after the Balance Sheet Date) was a new addition to the accounts.

The Chairman expressed thanks to the Financial Services Team for their hard work in preparing the Statement of Accounts.

RESOLVED – That the Audit Committee:

- (1) Acknowledged the de-cluttering which had been undertaken to aid readability and remove non material disclosure notes from the Statement of Accounts; and thanked the Financial Services Team for their efforts.
- (2) Approved the 2015/16 Statement of Accounts, noting that also included the amended Annual Governance Statement.

AUC.57/16 LETTER OF REPRESENTATION 2015/16

The Chief Accountant reported (RD.29/16) that the audit of the Statement of Accounts for 2015/16 was substantially complete with the Auditors' Audit Findings Report (ISA260) being considered elsewhere on the Agenda. Following approval of that report, the Auditors would issue their formal opinion and the audit process for 2015/16 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 it would be signed by the Director of Resources on behalf of the City Council.

The Chief Accountant highlighted, in particular, the information concerning unadjusted misstatements and the fact that the impact of the December 2015 flooding event had been considered when valuing assets disclosed on the Council's balance sheet [Sections xiii and xvi referred].

The Audit Manager (Grant Thornton) undertook to feed back a comment concerning the use of roman numerals within the letter of representation.

RESOLVED – (1) That the Audit Committee approved the Letter of Representation for 2015/16.

(2) That the Director of Resources be authorised to sign the same on behalf of the Council.

AUC.58/16 INTERNAL AUDIT PROGRESS REPORT 2016/17

Councillor Mrs Mallinson, having declared an interest, remained within the meeting room, but made no comment on the Audit of Housing Benefits Overpayments Recovery.

Councillor Mrs Riddle, having declared an interest, remained within the meeting room, but made no comment on the Audit of the Homelife Scheme.

The Audit Manager (Cumbria Shared Internal Audit Service) submitted report RD.26/16 summarising the work carried out by Internal Audit and detailing progress against the Audit Plans for 2015/16 and 2016/17.

The Audit Manager reminded Members that the 2015/16 Annual Risk Based Audit Plan was agreed by the Committee on 13 April 2015 (Report RD.02/15 referred). A summary of work completed from the 2015/16 Plan was included in the Internal Audit Annual Report presented to the Audit Committee in July 2016. As a number of reports had not been finalised at that time, a summary of the overall 2015/16 Plan position was included at Appendix A for Members' information.

The outstanding work from the 2015/16 Plan was:

- the draft reports in relation to 2 risk-based reviews (Overtime and Enterprise Centre) were nearing completion
- 1 follow up review (Homeworking) was ongoing
- Procurement Audit – deferred at management's request as agreed at last Committee for completion in 2016/17
- Street Cleaning Education and Enforcement – carried forward to 2016/17 Plan at management's request, as agreed at last Committee.

Members' were further reminded that the 2016/17 Annual Risk Based Audit Plan was agreed by the Committee on 19 April 2016 (Report RD.01/16 referred). A summary of the overall 2016/17 Plan position was included at Appendix B for information.

As stated earlier, management had requested the further deferral of the Audit of Street Cleaning Education and Enforcement due to a restructure in the Department. It would therefore be sensible to defer the Audit until that had been completed and staff established in their new roles.

The Chairman indicated that, whilst disappointed, Members supported the reasons for deferral.

The Audit Manager (Cumbria Shared Internal Audit Service) commented that performance measures would be included within the next internal audit monitoring report once more data was available for 2016/17.

Turning to the issue of final Audit Reports, the Audit Manager (Cumbria Shared Internal Audit Service) informed Members that there were 9 audit reports for consideration by the Committee today – Building Maintenance; Homelife Scheme; Housing Benefits Overpayments Recovery; ICT Strategy; Risk Management; Workforce Planning and Development; Licensing; Treasury Management; and Main Accounting and Budgetary Control.

The Audit Manager (Cumbria Shared Internal Audit Service) and the Group Audit Manager (Cumbria Shared Internal Audit Service) provided an in depth overview of the above mentioned audits (focussing upon those with a partial assurance opinion); associated recommendations and reasons for the assurance opinions attributed to each audit.

Members raised the following issues / concerns during their consideration of the Audit Reviews:

Audit of Building Maintenance (Partial Assurance Opinion)

- *A Member expressed concern regarding the audit findings set out at Sections 5.1.1 and 5.1.2, emphasising that the failure to insert key information within the database set up to record statutory maintenance certifications and lack of systems evidence on condition surveys put the Council at tremendous risk should an injury or accident occur.*

The Member requested that a follow up be provided in order that the Committee could be assured that action was taking place to address those high priority recommendations.

In response, the Building and Estates Services Manager confirmed that the database information used for recording and monitoring statutory maintenance certifications would be brought up to date. In addition, a fresh five year rolling programme for undertaking condition surveys would be established for the operational property portfolio.

The Director of Governance added that a system of management checks would also be introduced to give the necessary level of assurance.

- *The Chairman expressed surprise that condition surveys were being undertaken by professional staff and yet the recording thereof was incomplete. She further questioned the professional guidance provided to Surveyors as regards what was expected from a condition survey.*

The Building and Estates Services Manager summarised the role undertaken by individual building surveyors. Action was being taken to address the audit finding. Due to resource issues reports on condition would be procured utilising the services of an external Building Surveyor. An annual inspection would be added, including the completion of a pro forma to evidence that the work had been done.

On the latter issue, the Manager confirmed that professional and statutory guidance would be documented appropriately in future.

- *Did the Council have an Asbestos Register in place?*

The Building and Estates Services Manager confirmed that the Council did indeed have an Asbestos Register. Arrangements were being made for a further schedule of inspections to pick up on the audit finding.

- *The audit had been undertaken at the behest of the Director of Governance and the Building and Estates Services Manager. Was there a cultural issue of a lack of communication within teams; and were there any other areas which should similarly be audited?*

In terms of the context, the Director of Governance explained that the Property Services Section had recently undergone a complete transformation. That led to the request by himself and the Building and Estates Services Manager that Building Maintenance be included in the Audit Plan. He did not have any other similar areas of concern at the moment.

The Building and Estates Services Manager emphasised that, due to the availability of resources, there was a clear need to work in different ways moving forward.

The Member was assured by the responses provided.

The Chairman thanked the Officers for their attendance, concluding that the Audit of Building Maintenance did add value in terms of putting measures in place to safeguard the authority.

Audit of Homelife Scheme (Partial Assurance Opinion)

- *The perception of the Homelife Scheme was positive.*

The Director of Economic Development agreed that the Homelife Scheme had been very well received and had done enormous good. For the benefit of Members she summarised, in some detail, the background to the establishment of the Scheme, together with the operational / funding challenges.

The audit had been commissioned at a key time as Homelife went through a transitional period as it downsized and staff changed. The Director considered the audit to be positive, adding that she was now more comfortable.

- *The majority of the audit recommendations had been implemented meaning that the Committee had that assurance; and the high priority issues would be followed up through the Audit plan moving forward.*

Recommendation 3 (Management should have arrangements in place to ensure, and demonstrate, that an appropriate level of planning and evaluation is in place to support the development and delivery of schemes and their objectives) had a implementation date of September 2016. Had that been looked at?

In response, the Environmental Health and Housing Manager advised that certain aspects were now included within the Environmental Health Service Plan. Financing the Scheme during 2016/17 remained the key risk / challenge. An options paper on the future of the Scheme was presented to the Joint Management Team on 26 September 2016 who agreed to consider funding options through the DFG grants that may allow a reduced form of the HIA to continue next year. A service review was currently underway to determine the details of the Scheme moving forward.

- *A Member expressed concern regarding the potential risks to the Council emanating from the Homelife Scheme as it operated at the moment. She considered the Management Action Plan to be key.*

The Chairman indicated that there were mitigating factors and that the audit recommendations were being addressed.

The Environmental Health and Housing Manager replied that, although the risks were still present, they were reducing as core costs had been reduced and key safety risks reduced with the end of the Health and Social Care Co-ordinator Project.

In conclusion, the Chairman thanked the Officers and welcomed the assurances given in response to the audit recommendations. The positive work undertaken by the Homelife team was acknowledged and the audit would strengthen the Scheme for the people of Carlisle.

Audit of Housing Benefit Overpayments Recovery (Partial Assurance Opinion)

The Director of Resources began by outlining the background, context and scope of the planned audit of Housing Benefits Overpayments which was undertaken in accordance with the 2015/16 Audit Plan. He explained that a restructure of the Revenues and Benefits Service had been undertaken, the next step being a lean systems review of the overpayments systems.

The Director was pleased that Internal Audit had recognised the areas of good practice identified during the course of the audit as evidenced at Section 4.3. He gave an assurance that the agreed management actions were being addressed, but stressed that they would take some months to complete.

- *The standardised recovery procedure was out of date. How did that affect staff?*

The Director of Resources replied that the recovery procedure had now been revised and was now more lean.

- *Why were the overpayment recovery policies not currently aligned to other key strategy documents, such as the anti-poverty strategy?*

The Director of Resources stated that Officers within the Revenues and Benefits Shared Service had worked in accordance with their respective authorities' individual procedures and policies. The audit recommendation would be addressed as changes to procedures were developed and applied, with priority being given to the Debt Recovery and Anti-Poverty Strategies.

The Chairman thanked the Director of Resources for his evidence, which was reassuring. The Committee would receive an update on the high priority recommendation as part of the follow up review.

Audit of ICT Strategy (Reasonable Assurance Opinion)

In discussion, Members recognised and appreciated the significant amount of work undertaken on ICT within the authority in recent years.

Audit of Risk Management (Reasonable Assurance Opinion)

The Deputy Chief Executive commented that, whilst being somewhat disappointed by the medium priority rating attributed to the issues identified at Section 4.4.2, following discussion the recommendations were accepted.

The Chairman advised that the Committee accepted the strengths (areas of good practice identified during the course of the audit) and appreciated the management response to the audit findings.

Audit of Workforce Planning and Development (Partial Assurance Opinion)

The Group Audit Manager (Cumbria Shared Internal Audit Service) explained that the partial assurance opinion represented a professional opinion based upon the work done. The key factor in that opinion and area of risk related to the need for a formal decision to be taken on whether a Workforce Strategy was required and actions to then be taken accordingly. It was nevertheless appropriate for the Chief Executive to express his disagreement with that opinion.

Speaking at the invitation of the Chairman, the Chief Executive acknowledged that the audit review was a really useful piece of work.

The Chief Executive accepted that the failure by the Senior Management Team to make a formal decision on whether or not to umbrella the relevant policies and strategies under a single workforce plan was a weakness which would be addressed. He did not, however, consider the “Partial Assurance” opinion to be a fair reflection; the relevant recommendation should in his opinion have been of medium priority and the audit overall of Reasonable Assurance.

- *Did the Chief Executive take the view that the lack of an overarching workforce strategy was not a significant risk?*

In response, the Chief Executive reiterated that the City Council did have in place a number of workforce strategies which contributed towards workforce design and development, including agile working, appraisal process, apprenticeships, etc. He remained to be convinced that devoting time looking at how many policies were required was a good use of Officers’ time. Discussions were, however, ongoing with a view to addressing the audit recommendations.

The Chief Executive further commented upon the need to be proactive as opposed to reactive, as evidenced by the authority’s work around the Voluntary Redundancy / Early Release initiative. He added that if, having given consideration to the recommendations

emanating from this audit review, Members felt strongly that a corporate Workforce Strategy was required he would respond to that.

- *A Member stated that she understood why the audit had received a Partial assurance rating; referencing a risk assessment within the Corporate Risk Register dated 22 March 2016, noting that the risk score had remained above the Council's tolerance level since September 2013. She considered that it would be good to have an umbrella policy in place, emphasising that it was now time for a decision to be made and a line to be drawn.*

Another Member did not accept that the audit review contained evidence sufficient to warrant a partial assurance opinion. The Member stated, for the benefit of management, that such a decision i.e. whether to have a workforce plan or not, in her understanding must be taken by Members.

Speaking by way of assistance, the Financial Services and HR Manager clarified that the issue was not that the authority must have an umbrella policy in place. It was rather that a decision required to be taken and recorded.

The Chairman indicated that Audit Scotland had compiled a report which may be of assistance.

In terms of the recommendations, the Chairman confirmed that the Committee noted the audit review; looked forward to a decision being taken concerning a Corporate Workforce Strategy; and would receive a formal follow up on implementation of the audit recommendations at a future date.

Audit of Licensing (Reasonable Assurance Opinion)

The Legal Services Manager drew Members' attention to the medium priority audit finding concerning the reconciliation of financial data to LALPAC (Section 5.1.1 referred). The Licensing Manager was investigating the matter. The advisory issue concerning the periodic changing of passwords had already been implemented.

The Legal Services Manager further commented upon the positive working relationship with the Auditors.

In conclusion, the Chairman indicated that the Committee noted the audit review and acknowledged the areas of good practice identified during the course of the audit.

Audit of Treasury Management (Substantial Assurance Opinion)

The Chairman referred to the substantial assurance opinion attributed to the audit review. She considered it important that the Committee acknowledged the good work being undertaken and thanked the Chief Accountant and his team for their efforts.

The Chief Accountant replied that the Principal Accountant must take the credit for much of that work.

Audit of Main Accounting and Budgetary Control (Reasonable Assurance Opinion)

The Chairman noted that the management response recorded that they had not agreed certain of the audit findings contained within the report. The Committee therefore needed to gain an understanding as to why management had responded in that manner.

In response, the Chief Accountant highlighted page 321 of the agenda document pack – Recommendation 3 (a standard period end process should be implemented to document that expected checks / reconciliations have been completed before FIS reports are run). He could understand that such a process may be of benefit in large local authorities, however, all of the City Council's finance staff were located in the same office and communicated with each other as required. Management were content that all items and control account monitoring procedures were in place.

The Chief Accountant had not agreed to the recommendation since it would place an additional un-necessary burden upon what was a small finance team.

As regards Recommendation 4 (management should consider recording performance against target dates in the reporting timetable to demonstrate achievement of deadlines), the Chief Accountant stated that, for the reasons explained at the close out meeting, it was agreed that no forecasts would be included in Q1 and Q2 Executive reports. Financial Services did meet the deadlines for the submission of Executive / Committee reports and assurance could be gained from that.

A Member indicated that she had sympathy with the Chief Accountant's assessment of the position.

RESOLVED – (1) That Report RD.26/16 be received and progress made on the remainder of the 2015/16 Audit Plan, together with progress on the 2016/17 Audit Plan referred to in Section 2 be noted.

(2) That the Audit Committee agreed to the carrying forward of the Audit of Street Cleaning Education and Enforcement to 2017/18.

(3) That the Audit Committee received the finalised audit reports referred to in Section 4 and attached as Appendices C - K to the report, subject to the following:

- Audits of Building Maintenance; Homelife Carlisle; and Housing Benefits Overpayments Recovery – the Committee was reassured by the management responses to the audit findings, and would receive audit follow ups at future meetings of the Committee.
- Audits of ICT Strategy; Risk Management; Licensing; Treasury Management; and Main Accounting and Budgetary Control – Members noted with pleasure the areas of good practice identified during the course of the audit reviews.
- Audit of Workforce Planning and Development – the Committee supported the need for a decision to be taken (by the Senior Management Team / Executive) on whether or not to put in place an overarching Workforce Strategy, and would receive a formal follow up on the matter at a future date.

The meeting adjourned at 11.50 am and reconvened at 12 noon

AUC.59/16 TREASURY MANAGEMENT – APRIL TO JUNE 2016

The Chief Accountant presented report RD.21/16 providing the regular quarterly report on Treasury Management Transactions including the requirements of the Prudential Code.

The Chief Accountant explained that most budget heads were performing very much in line with the original estimate. There was an under spend on Minimum Revenue Provision (MRP) due to the Capital Financing Requirement being lower at the end of 2015/16 as a result of the final capital outturn position.

Interest receivable would be closely monitored following the cut in interest rates on 4 August 2016; however, it was unlikely that would have a significant effect on the overall returns achieved by the Council against the annual budget (£255,700) set given the extremely low level of returns already being achieved.

The dividends received from the Property Fund had maintained an income of approximately £38,000 per quarter. The yield to the end of June was 4.99%. However, with the uncertainty over Brexit, the valuation of the investment fell at the end of June to £3,177,558 from £3,281,180 at the end of March. Members should note that was still higher than the initial investment by £177,558 and that investment was placed for income returns and long term growth.

The Executive had, on 30 August 2016, received Report RD.21/16 and noted the Prudential Indicators as at the end of June 2016 (Minute EX.81/16 referred).

Members were invited to make any observations on treasury matters during the quarter, although it would be noted from the report that it had been a relatively quiet period in treasury terms.

A Member considered the report to be excellent.

RESOLVED – That Report RD.21/16 be noted.

AUC.60/16 EFFECTIVENESS REVIEW OF THE AUDIT COMMITTEE

The Financial Services and HR Manager reported (RD.24/16) that an effectiveness review of the Audit Committee had been undertaken on 19 April 2016 in line with the CIPFA Guidance for Local Authorities Audit Committees. The review was undertaken by an external facilitator following completion of a self-assessment questionnaire issued to all Members and substitute Members of the Committee.

In total, six responses had been received with ten attendees at the facilitated session in April (seven Members and three Officers). The responses to the questionnaire were summarised at Appendix A, together with the scoring methodology and an average score for each question.

Whilst it was pleasing to note that all of the average scores were within the excellent and good categories, the review highlighted areas for improvement. These were also included within the Appendix.

These areas for improvement had been converted and summarised into an improvement plan (Appendix B) for Member's consideration. If agreeable by the Committee, the responsible officer would ensure compliance within the proposed timescale and progress reports presented to the Audit Committee as required.

The external facilitator had also included the core skills and competencies which Members of the Audit Committee should have, or acquire as soon as possible after appointment.

A further review of the effectiveness of the Committee would be undertaken in line with CIPFA guidelines.

The following observations were raised by Members in discussion:

- This was a good report and should be supported
- It may prove beneficial, in terms of widening their knowledge and understanding, if substitute Members of the Audit Committee attended meetings to observe proceedings
- Executive Members should be invited to attend future meetings of the Committee and encouraged to contribute to items of business relative to their respective portfolio areas
- Members of the Audit Committee could consider taking a lead role on particular issues
- Arrangements be made for a further workshop session to develop ideas regarding Member development and training
- Members could perhaps be more proactive in highlighting the benefits of undertaking training with their respective political groups

The Director (Grant Thornton) indicated that the Audit Committee was an example of a well-run Audit Committee. Although the work undertaken was very effective, the Committee may consider being more proactive in terms of investigating other areas of work (i.e. thinking outside the box).

RESOLVED – (1) That the Audit Committee:

- (i) Noted the results of the Effectiveness Review.
- (ii) Had considered the Improvement Plan, appended to Report RD.24/16, and
- (iii) Agreed to the adoption and implementation of the actions as set out in the Improvement Plan, noting the responsible Officer/Member and proposed timescales.

(2) That arrangements be made for a further workshop session, prior to Christmas 2016, to which both Members and Substitute Members of the Committee should be invited.

AUC.61/16 LOCAL AUDIT AND ACCOUNTABILITY ACT 2014 – APPOINTMENT OF EXTERNAL AUDITORS

The Financial Services and HR Manager reported (RD.25/16) that the Local Audit and Accountability Act 2014 received royal assent on 30 January 2014 and established three main components; one of which provided for the abolition of the Audit Commission and established new arrangements for the audit and accountability of local public bodies.

Report RD.05/15 considered by the Committee in April 2015 summarised the initial guidance in relation to the audit of local public bodies insofar as a local authority must appoint a local auditor to audit its accounts by 31 December each year for the following year's Accounts.

The Council's current external auditor was Grant Thornton, that appointment having been made under a contract let by the Audit Commission. Following closure of the Audit Commission the contract was currently managed by Public Sector Audit Appointments Limited (PSAA), the transitional body set up by the Local Government Association (LGA) with delegated authority from the DCLG.

Those transition arrangements were put in place for the audit of the 2012/13 accounts and were due to cease after the audit of the 2016/17 accounts; however the DCLG, in October 2015, determined that they would be extended for 1 year to include the 2017/18 accounts. Therefore the Council needed to consider the options available and put in new arrangements in time to make a first appointment by 31 December 2017 in time for the audit of the 2018/19 accounts.

Since the last Audit Committee meeting the LGA had, with the support of 270 eligible bodies, been working on developing a sector led body to act as an 'appointing person' under the Local Audit (Appointing Person) Regulations 2015. Greater economies of scale would come from the maximum number of councils acting collectively and opting into a sector led body (SLB). As a result, the DCLG had now specified PSAA as an appointing person; a national sector led body to deliver economic and efficient external arrangements for the benefit of all authorities who wished to opt into that arrangement.

The Financial Services and HR Manager then summarised the following three main options available to the Council in terms of the local appointment of external auditors, together with the associated advantages/benefits and disadvantages/risks:

- setting up an independent Auditor Panel;
- joining with other councils to set up a joint independent Auditor Panel;
- opting-in to a sector led body that would negotiate contracts and make the appointment on behalf of Councils, removing the need to set up an independent Auditor Panel.

In conclusion, the Financial Services and HR Manager requested that Members give consideration to the above mentioned options before making a recommendation to Council.

RESOLVED – That, having considered the options set out in Report RD.25/16, the Audit Committee recommended to Council that:

- The Council opts, in principle, into the sector-led procurement of local authority external auditors from 31 December 2017; and that
- The final confirmation be delegated to the Chief Finance Officer in consultation with the Chairman of the Audit Committee. That would be given once the details of the sector-led offer were known.

At the invitation of the Chairman, the Audit Manager (Grant Thornton) advised that on 17 February 2015 regulations were laid before Parliament confirming proposals to bring forward the date by which Accounts must be published in England to 31 July, effective from the 2017/18 financial year.

The Audit Manager circulated, for Members' information, copies of the Executive Summary of a report entitled "Advancing closure – Transforming the financial reporting of local authority accounts" which included further information and case studies.

AUC.62/16 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.63/16 FUTURE OF INTERNAL AUDIT (Public and Press excluded by virtue of Paragraph 3)

The Group Audit Manager; and the Audit Manager (Cumbria Shared Internal Audit Service) retired from the meeting for this item of business.

Councillor Mrs Mallinson declared an interest in accordance with the Council's Code of Conduct. The interest related to the fact that she is a Member of Cumbria County Council.

Councillor Mrs Mallinson remained within the meeting room and took part in discussions.

The Director of Resources reported (RD.27/16) that, since 1 April 2010, the Council's Internal Audit Service had operated as part of a shared service arrangement between Cumbria County Council, Carlisle City Council, Copeland Borough Council and the Police Authority.

The current Internal Audit Shared Service would terminate on 31 March 2017 and the report set out the options available to the Council, together with recommendations and reasons therefor.

The Director of Resources and the Financial Services and HR Manager gave a presentation outlining, in detail, the current shared Internal Audit Service; the key drivers for review; the regulatory framework; various audit roles; the timetable and issues to be addressed.

In conclusion, the Director of Resources asked that the Committee consider the report and future options for administering the Internal Audit Service, and make recommendations to the Executive.

Members of the Audit Committee raised a number of questions / concerns regarding the current Internal Audit Service; financial / budgetary implications of the options under consideration; potential risks around the recruitment / retention of audit staff; the decision making process and associated timescales; independence; and TUPE arrangements to which the Director of Governance, the Director of Resources, the Financial Services and

HR Manager; the Director (Grant Thornton) and the Audit Manager (Grant Thornton) responded.

The Director (Grant Thornton) questioned whether consideration had been given to the third option and commented upon the need for care, from a procurement perspective to ensure compliance with procurement legislation. The Director of Governance responded on those points.

The Director (Grant Thornton) further commented upon the challenges around the demonstration of independence from a public perception and suggested that, prior to a decision being taken, an independent review be undertaken in order that the Committee may gain assurance on that aspect.

The Financial Services and HR Manager assured the Committee that the CIPFA guidance on the role of the Head of Internal Audit would be adhered to. That included any independence issues.

Having given detailed consideration to the various options set out within the report, it was:

RESOLVED – (1) That the Audit Committee had given in depth consideration to private Report RD.27/16 on the Future of Internal Audit and made the undernoted observations for transmission to the Executive:

- the concerns raised by Management relative to the changed client / contractor role and the role of Internal Audit (detailed at Sections 2.2 and 2.3 of the report) were appreciated;
- Members were concerned to ensure that capacity (number of audit days allocated within the Audit Plan) was sufficient to satisfy assurance requirements; and regarding potential difficulties around recruitment / retention of audit staff.

(2) That the Audit Committee sought assurance from the Executive that any new Internal Audit Service would remain independent of the Council's operational processes moving forward.

(3) That the Audit Committee wished to have sight of the Business Case prior to any final decision being taken on the future of the Internal Audit Service.

AUC.64/16 SUSPENSION OF STANDING ORDERS

During discussion of the above item 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.

AUC.65/16 CHAIRMAN'S COMMENTS

The Chairman reported that this was the last meeting at which the Director of Resources would be in attendance. She conveyed thanks to the Director for his contribution to the work of the Committee, adding that he would be missed.

[The meeting ended at 1.18 pm]