

## AUDIT COMMITTEE

**MONDAY 15 MARCH 2021 AT 10.00AM**

- PRESENT:** Councillor Meller (Chair); Councillors Birks, Bomford, Mrs Bowman, Mrs McKerrell, Patrick, and Miss Whalen (as substitute for Councillor Dr Tickner)
- OFFICERS:** Corporate Director of Governance and Regulatory Services  
Corporate Director of Finance and Resources  
Financial Services Manager (Deputy S.151) and Designated Head of Internal Audit  
Principal Auditor
- ALSO PRESENT:** Director, Audit (Grant Thornton)  
Deputy Leader, and Finance, Governance and Resources Portfolio Holder  
Communities, Health and Wellbeing Portfolio Holder

### **AUC.01/21 APOLOGIES FOR ABSENCE**

An apology for absence was submitted on behalf of Councillor Dr Tickner.

### **AUC.02/21 DECLARATIONS OF INTEREST**

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

### **AUC.03/21 PUBLIC AND PRESS**

RESOLVED – That the Agenda be agreed as circulated.

### **AUC.04/21 MINUTES OF PREVIOUS MEETING**

RESOLVED – That it be noted that Council had, on 2 March 2021, received and adopted the minutes of the Audit Committee meeting held on 18 December 2020.

### **AUC.05/21 MINUTES OF BUSINESS AND TRANSFORMATION SCRUTINY PANEL**

RESOLVED – That the Minutes of the meetings of the Business and Transformation Scrutiny Panel held on 7 January and 18 February 2021 be noted and received.

### **AUC.06/21 EXTERNAL AUDIT PROGRESS REPORT AND SECTOR UPDATE**

The Director, Audit (Grant Thornton) submitted the Audit Progress Report and Sector Update for Carlisle City Council – year ending 31 March 2020/2021.

The paper updated the Committee on progress in delivering Grant Thornton's responsibilities as external auditors and included:

- a summary of emerging national issues and developments that may be relevant to the local authority; and
- a number of challenge questions in respect of those emerging issues which the Committee may wish to consider.

The Director, Audit (Grant Thornton) updated the Committee on the progress in relation to the 2019/20 External Audit findings as follows: the revaluation of Property Plant and Equipment and Investment assets held by the Council had taken place; regular meetings between Officers and External Auditors had taken place monitor progress of the work; subject to the submission of the finalised valuation data, the External Auditor estimated a period of two weeks would be required to complete its work and be in a position to close the audit for 2019/20.

The Corporate Director of Finance and Resources stated that following the revaluation of a sample of assets on a Depreciated Replacement Cost basis, it was evident that the Council was not able to receive the required assurances on the valuations of the rest of the asset portfolio. Accordingly, an external valuer was appointed to revalue the entire portfolio. The findings of that work had been received by the Council and were currently undergoing quality assurance assessments by both the Property Services and Financial Services teams. Subject to the satisfactory completion of the quality assurance work, the revised valuations would be submitted to the External Auditor. The revaluations covered a three year period and where different values had been assigned to an asset, the appropriate adjustment to the Statement of Accounts for the relevant year would be made. In addition, work had commenced on valuations for 2020/21.

Following the External Auditors consideration of the data, a Final Accounts and Audit report would be issued. A Special meeting of the Audit Committee would be required to consider those reports which it was anticipated would be held in mid to late April 2021.

Following the National Audit Office's new Code of Audit Practice, the Director, Audit (Grant Thornton) advised that, as set out in the report, there would be a number of fundamental changes to the audit process from audit year 2020/21. He gave an overview of those changes in relation to Value for Money and Accounting Estimates.

A Member asked what impact the revaluation of Property Plant and Equipment and Investment assets was likely to have on the External Audit findings.

The Director, Audit (Grant Thornton) responded that the management response to the matter had been excellent, whilst that the revaluations had delayed the external audit process, it was not anticipated that the matter would affect the overall conclusion, nor was it expected that a Qualified Opinion would be issued. Although the anticipated 2019/20 opinion was unqualified there would be an emphasis of matter paragraph in the audit report to reflect the impact of COVID 19 on the valuations carried out by the Council's valuers on Property plant and Equipment and the Council's share of property assets in the local government pension scheme. This emphasis of matter was not a qualified or modified opinion and was standard and had applied across all GT audits when PPE and asset shares on pension schemes were material.

**RESOLVED** – That the Audit Committee welcomed and received Grant Thornton's Audit Progress Report and Sector Update for the year ending 31 March 2020/21.

## **AUC.07/21      AUDIT COMMITTEE'S ANNUAL REPORT**

The Chair presented report RD.62/20, the purpose of which was to summarise the work carried out by the Audit Committee during 2020/21; and to demonstrate to Council and stakeholders the effectiveness of the Committee in maintaining the organisation's internal control environment and governance arrangements.

With reference to paragraph 2.25 of the report, a Member requested that the word "exceedingly" be removed. She accepted that the virtual meetings of the Committee had worked well, but in

comparison to in person meetings felt it would be more appropriate to describe their operation as “well”.

The Chair agreed the amendment.

RESOLVED – That the Annual Report of the Audit Committee, which would be submitted to the City Council on 27 April 2021, be noted and accepted, subject to the removal of the word “exceedingly” from paragraph 2.25.

#### **AUC.08/21      INTERNAL AUDIT PLAN 2021/22**

The Principal Auditor presented report RD.66/20 which recorded that Internal Audit was required, under the mandatory Public Sector Internal Audit Standards (PSIAS), to develop an annual risk based Audit Plan for approval by the Audit Committee (Appendices A to C referred).

The Principal Auditor proposed that there would be 579 direct days of Audit time in 2021/22. That compared to 539 direct days included in the Internal Audit Plan for 2020/21. The increase related to the procurement of additional temporary resource and an increase in hours within the team, partially offset by an absence of additional specialist resource for ICT in 2021/22.

The Principal Auditor commented upon the categories of Internal Audit work, details of which were provided at Section 5 of the report.

Members’ attention was further drawn to the requirements of the PSIAS in terms of the maintenance of a system to follow up on the implementation of agreed actions from internal audit work; and that the Council had in place an Audit Charter, details of which were provided.

During their consideration of the report, Members raised the following questions / observations:

- Were all staff in the Internal Audit team signed up to the PSIAS Code of Conduct?

The Principal Auditor advised that as a member of the Institute of Internal Auditors there was an annual requirement to sign up to the code, all staff in the team also completed an Expression of Interest in the Council’s Officer Code of Conduct.

RESOLVED – That the Audit Committee:

1. Had considered and approved the 2021/22 Audit Plan attached at Appendices A – C of Report RD.66/20.
2. Approved the Internal Audit Charter for 2021/22 attached at Appendix D.

#### **AUC.09/21      TREASURY MANAGEMENT OCTOBER – DECEMBER 2020**

The Financial Services Manager (Deputy S.151) and Designated Head of Internal Audit submitted report RD.58/20 (amended) providing the regular quarterly summary of Treasury Management Transactions for the third quarter of 2020/21. The Executive had (on 8 February 2021) received the report, noting the Prudential Indicators as at the end of December 2020 – Minute EX.26/21 referred.

Members of the Audit Committee were invited to make any observations on treasury matters which had taken place during that quarter.

The Committee was also asked to note that, subsequent to consideration by the Executive, CIPFA had issued two consultations on the Treasury Management Code of Practice and the Prudential Code. Further details of those consultations were outlined at paragraph 1, prior to the quarterly monitoring progress report. Any feedback received following the consultation process would be reported to a future Committee.

The following questions and observations were raised in discussion:

- What impacts would the proposed TMP 13 – Environmental, Social and Governance Risk Management (ESG Risk Management) have if it were to be adopted?

The Financial Services Manager responded that the aim of TMP 13 was to bring greater awareness into Treasury Management Practices of the organisations and products the Council invested in, borrowed from etc, and their environmental, social and governance credentials. Those considerations would be in addition to the existing primary treasury management goals of security of investments/capital and their associated risks.

The Finance, Governance and Resources Portfolio Holder assured the Committee that the Council would continue to make decisions based on risk and return to seek to secure the best investments for the authority.

- What impact had the Covid 19 pandemic, particularly in relation to changes to the high street, had on the CCLA Property Fund investment?

The Financial Services Manager explained that the fund was heavily diversified across a range of economic sectors, including office space and retail parks. Over the past year there had not been a drop-off in property rents, however, that situation was liable to change as pandemic restrictions were lifted. Property investments were long term in nature and as such fluctuations of values were to be expected, the return from the fund was currently 4.49% which was significantly higher than normal transactions. Therefore, were there to be a drop off in the investment return in the coming years it would continue to be beneficial in comparison to base rate forecasts. The fund was heavily used by local authorities and it had a significant value overall.

**RESOLVED - That the Audit Committee:**

1. Noted and made observations on the quarterly position on treasury management activities and transactions which had taken place; and
2. Noted the two open consultations on Treasury Management and the Prudential Code, and delegated responsibility for responding to those to the Corporate Director of Finance and Resources, following consultation with the Chair of the Audit Committee and the Portfolio Holder for Finance, Governance and Resources.

## **AUC.10/21 INTERNAL AUDIT PROGRESS 2020/21 (JANUARY TO FEBRUARY)**

The Principal Auditor submitted report RD.67/20 providing an overview of the work carried out by Internal Audit between January and February of 2020/21.

Progress against the 2020/21 audit plan was as detailed at Appendix A. 50% of planned reviews had been finalised to draft stage; and an additional 20% was in progress. Following the successful procurement of additional temporary resources it was anticipated that further progress would be made against the plan by May 2021.

The Principal Auditor advised that two planned pieces of work had been completed in the period, namely the Audit of Safe Recruitment; and the Audit of Financial Services Governance Arrangements.

He further summarised for Members the information provided at paragraphs 2.3 and 2.4; and Sections 3 and 4 concerning utilisation of the audit resource; performance indicators; and audit recommendations.

**RESOLVED – That the Audit Committee:**

1. Noted the progress against the Audit Plan for 2020/21 set out within Report RD.67/20.
2. Noted the progress made on audit recommendations to date outlined in Appendix B.

#### **AUC.11/21 INTERNAL AUDIT REPORT SAFE RECRUITMENT**

The Principal Auditor submitted report RD.68/20 which supplemented the Internal Audit Progress Report and considered the Review of Safe Recruitment which was found to provide reasonable assurances and contained eleven medium graded recommendations.

The Principal Auditor elaborated upon the audit highlighting, in particular detail, the key points and associated recommendations.

A Member sought clarification on the implementation of the recommendations given the staff vacancies within the HR Team.

The Principal Auditor advised that the report was currently sitting with a member of the HR Team. Once a new Service Manager had been appointed the Principal Auditor would discuss the report with them with a view to developing a plan to address the recommendations.

**RESOLVED – That the Audit Committee received the final Audit Report outlined in paragraph 1.1 of Report RD.68/20.**

#### **AUC.12/21 INTERNAL AUDIT REPORT FINANCIAL SERVICES GOVERNANCE ARRANGEMENTS**

The Principal Auditor submitted report RD.69/20 which supplemented the Internal Audit Progress Report and considered the Review of Financial Services Governance Arrangements which was found to provide substantial assurances and contained three medium graded recommendations.

The Principal Auditor elaborated upon the audit highlighting, in particular detail, the key points and associated recommendations.

**RESOLVED – That the Audit Committee received the final Audit Report outlined in paragraph 1.1 of Report RD.69/20.**

#### **AUC.13/21 THE REDMOND REVIEW**

The Financial Services Manager (Deputy S.151) and Designated Head of Internal Audit submitted report RD.63/20 providing the Audit Committee with an update on the outcomes of the Redmond Review on Local Audit and the Transparency of Local Authority Financial Reporting.

The report also addressed the response of the MHCLG to the review and what the next steps would be, and how the review and recommendations made would impact on the Council.

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

A Member commented that a number of key changes proposed by the Review would improve the Council's audit process going forward. She particularly supported the recommendation that the Annual Audit report be submitted to Full Council.

In response to a question from a Member requesting further detail on recommendation 17, the Director, Audit (Grant Thornton) indicated that he would prepare and circulate to the Committee a paper on the matter.

The Corporate Director of Finance and Resources noted that the implementation of the Review recommendations may necessitate legislative changes, therefore further reports updating the Committee on the progress of the recommendations would be submitted at future meetings. In relation to ISA 540, there was a reference in the Statement of Accounts which gave assurances in relation to the methodology used by management to support the accounts.

A Member asked whether the short training sessions prior to meetings of the Committee would be reinstated in the new civic year.

The Corporate Director of Finance and Resources advised that she was developing a training programme for the coming year which would include both shorter pre committee meeting sessions, and longer sessions depending on the topic being covered. The programme would be circulated in due course.

The Chair noted that the Corporate Director of Finance and Resources had recently an email requesting details of Members training requirements, he asked those Members who had not yet responded to that communication to do so.

RESOLVED – That the Audit Committee:

1. Noted the outcome of the Redmond Review and the responses of MHCLG.
2. Noted the Council's response to the consultation on amendments to the Accounts and Audit Regulations 2015 shown at Appendix B.
3. That the Director, Audit (Grant Thornton) prepare and circulate to the Committee a paper on Richmond Review recommendation 17.

[The meeting ended at 11.12am]

## **AUDIT COMMITTEE - SPECIAL**

**THURSDAY 20 MAY 2021 AT 10.00AM**

**PRESENT:** Councillor Meller (Chair); Councillors Birks, Bomford, Mrs Bowman, Mrs McKerrell, and Patrick.

**OFFICERS:** Corporate Director of Governance and Regulatory Services  
Corporate Director of Finance and Resources  
Financial Services Manager (Deputy S.151) and Designated Head of Internal Audit  
Revenues and Benefits Operations Manager

**ALSO**

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

### **AUC.14/21 APOLOGIES FOR ABSENCE**

An apology for absence was submitted on behalf of Councillor Dr Tickner.

### **AUC.15/21 DECLARATIONS OF INTEREST**

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

### **AUC.16/21 PUBLIC AND PRESS**

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

### **AUC.17/21 EXTERNAL AUDIT FINDINGS FOR CARLISLE CITY COUNCIL**

The Director, Audit (Grant Thornton) submitted the External Audit Findings Report for the year end 31 March 2020.

The external audit was now complete and subject to the Committee's consideration of the report, the work would be signed off with the final report being issued on 21 May 2021.

The Director, Audit (Grant Thornton) noted that an earlier version of the report (submitted to the Committee at its meeting of 18 December 2020), had identified asset valuations in respect of Property, Plant and Equipment (PPE) assets valued under the Depreciated Replacement Cost (DRC) basis required further assurance.

Following a revaluation of the assets, multiple adjustments to the Council's Financial Statements had been required: at the 2020 year end PPE asset values had increased from £57.7M to £73.7M, investments assets had increased from £79.9M to £90.5M. Due to the significant differences in the valuations, it was necessary to restate the 2018/19 and 2017/18 valuations to ensure consistency in the figures shown in the balance sheet. This had also resulted in additional disclosures being required for Prior Period Adjustments (Paragraph 1.7 of the Narrative Statement on page 9 and Note 4.1 on page 43 of the accounts) on what the effect of the revised valuations on the main financial statements (including prior year comparator figures).

The need for the revaluation had been identified following the original valuer not providing appropriate responses to challenges from the External Auditor. Accordingly, the Council reviewed the original valuations and instructed a new valuer to assess the Council's portfolio, which had led to the revised values cited above. Grant Thornton were satisfied that the new valuations were robust and the Director, Audit was able to assure the Committee that the asset base valuations were now solid. A high level recommendation had been raised requiring the Council to complete quality assurance check on the valuations to ensure that the basis of valuations, key assumptions and data sets employed were reasonable.

The Director, Audit (Grant Thornton) commended the Corporate Director of Finance and Resources and the Financial Services Manager (Deputy S.151) for their mature response and handling of the revaluation process.

Grant Thornton's work was substantially complete and there were no matters of which they were aware that would require modification of their audit opinion as outlined in Appendix E, or material changes to the financial statements. The Audit had been completed providing the Council with an unqualified opinion on both the Accounts and the VFM conclusion.

Turning to the issue of fees, the Director, Audit advised that the fees would be significantly more than the originally sum of £51,000 as substantial additional time had been charged to the audit through a combination of a rescheduled start to the audit and the audit on Property Plant and Equipment and Investment Property would require full re-performance. As a result, the new fee was expected to be £81,210, subject to the appropriate approval processes. It was expected that the Annual Audit Letter would be produced in the coming month it would include a detailed breakdown of the additional fees.

In considering the External Audit Findings for Carlisle City Council, Members raised the following comments and questions:

Was the increased audit fee solely related to the PPE revaluation work?

The Director, Audit (Grant Thornton), responded that the majority of the increased fee was as a result of the revaluation work, additional costs related to remote working had been factored into the fee prior to the PPE work. It was further noted that, as a result of the Redmond Review there would likely be a significant increase in audit fees going forward; the proposed fee for next year had been shared with management.

Why has the revaluation of the PPE assets increased their value so significantly?

The Corporate Director of Governance and Resources explained that it had transpired through the external audit process that the original valuer had used inappropriate bases in their valuations. The valuer appointed to carry out the revaluation work had used relevant bases therefore their valuations were considered much more robust.

The Corporate Director of Finance and Resources advised that at the time of appointment, the new valuer had been asked to conduct the valuations for 2021. That data had been received and was undergoing review by the Property Services Team to ensure the accuracy of the information. A tender process to appoint a new valuer would be undertaken in due course.

What impact had the revaluations had on the insurance of the assets?

The Financial Services Manager (Deputy S.151) responded that, in terms of the balance sheet the property valuation and insurance valuations were not the same due to their different focuses. The insurance valuation comprised data relating to rebuild costs, effects of wear and



tear etc. The insurance valuation was updated and reviewed annually as part of its tender process.

A Member proposed that Appendix A (Action Plan) and Appendix B (Follow up on prior year recommendations be referred to the Business and Transformation Scrutiny Panel for information and ongoing monitoring. The Committee indicated its assent.

**RESOLVED – That the Audit Committee:**

(1) Noted and received the very positive External Audit Findings Report for the year ended 31 March 2020.

(2) Recognised the excellent work undertaken by the Financial Services Team, and the success in achieving the statutory close down. The Committee also recognised the contribution of the Grant Thornton team.

(3) Referred Appendix A (Action Plan) and Appendix B (Follow up on prior year recommendations be referred to the Business and Transformation Scrutiny Panel for information and ongoing monitoring.

#### **AUC.18/21      STATEMENT OF ACCOUNTS 2019/20**

The Financial Services Manager (Deputy S.151) submitted report RD.03/21 presenting the Council's Statement of Accounts 2019/20 which had been subject to a two-month audit process, (commencing in September and with a statutory deadline date of 30 November 2020).

Due to the impact of the revaluation of the Council's Property, Plant and Equipment (PPE) it was necessary to restate the 2018/19 and 2017/18 valuations to ensure consistency in the figures shown in the balance sheet. This also resulted in additional disclosures being required for Prior Period Adjustments (Paragraph 1.7 of the Narrative Statement on page 9 and Note 4.1 on page 43 of the accounts) on what the effect of the revised valuations on the main financial statements (including prior year comparator figures).

The Committee were asked to approve the Statement of Accounts, following which the Chair would be required to sign the relevant documents.

**RESOLVED – That the Audit Committee approved the 2019/20 Statement of Accounts, noting that also included the Annual Governance Statement.**

#### **AUC.19/21      LETTER OF REPRESENTATION 2019/20**

The Financial Services Manager (Deputy S.151) reported (RD.02/21) that the audit of the Statement of Accounts for 2019/21 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 2019/20 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 Corporate Director of Finance and Resources on behalf of the City Council.

Members were asked to approve the Letter of Representation 2019/20, and it was:

RESOLVED – That the Audit Committee approved the Letter of Representation for 2018/19.

**AUC.20/21      HOUSING SUBSIDY GRANT LETTER 2019/20**

The Revenues and Benefits Operations Manager submitted details of the completed audit of the Housing Benefit Subsidy Claim for 2019/20 undertaken by Mazars (RD.01/21). With a view to providing context for the information contained in the report, the Revenues and Benefits Operations Manager advised that £21.8M of Housing Benefit payments claims had been made during the period covered by the audit. No significant issues had been identified, however the report highlighted two cases of benefit underpayment.

The audit had indicated the need for a review of the Risk Based Verification policy (RBV) to ensure that the verification processes used were necessary and in accordance with actual practice.

The Local Discretionary Scheme (War and Disablement Pensions) had been in place for a number of years without having been recently ratified by Council. The Scheme would in future be incorporated into the Council Tax reports submitted to as part of the Council's annual Budget process. The matter had not impacted the Housing Subsidy.

On the basis of the audit by Mazars, the Revenues and Benefits Operations Manager was content that the process used in relation to housing benefit subsidy were accurate and in accordance with the requirements of the service.

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

A Member asked how identified cases of underpayment would be addressed.

The Revenues and Benefits Operations Manager advised that once an underpayment had been identified action was taken to address that with the person(s) affected. Depending on the timing of the underpayment, the matter may be reported in the subsequent year's audit.

With reference to Appendix B of the report and the notation that the issue of the underpayments not being considered closed, a Member asked for further detail.

The Revenues and Benefits Operations Manager explained that those matters would be considered in subsequent audits to ensure that they had been effectively addressed.

A number of Members commented that they felt the report was not easily comprehensible and thanked the Revenues and Benefits Operations Manager for his wider explanation of the issues set out therein.

The Corporate Director of Finance and Resources stated that she would take up the matter of the presentation of the report with the appropriate officer at Mazars. She further noted the audit had reported no exceptions or errors which was testament to the work of the staff undertaking housing benefit subsidy work.

With respect to the Risk Based Verification policy, a report would be submitted to the Committee once the review had been carried out.

RESOLVED – 1) That the Housing Subsidy Grant Letter 2019/20 (RD.01/21) be noted.

[The meeting ended at 10:58am]