

AGENDA

Audit Committee

Thursday, 16 March 2017 AT 10:00
In the Flensburg Room, Civic Centre, Carlisle, CA3 8QG

A private preparatory / briefing meeting for Members of the Committee will
be held at 9.15 am in the Flensburg Room

Apologies for Absence

To receive apologies for absence and notification of substitutions

Declarations of Interest

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

Public and Press

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

Minutes

5 - 16

To approve and sign the Minutes of the meeting held on 22 December 2016.

[Copy Minutes in Minute Book Volume 43(5) / herewith]

PART A

To be considered when the Public and Press are present

A.1 MINUTES OF RESOURCES OVERVIEW AND SCRUTINY PANEL 17 - 34

The Minutes of the meetings of the Resources Overview and Scrutiny Panel held on 5 January and 23 February 2017 are submitted for information.

(Copy Minutes herewith)

A.2 EXTERNAL AUDIT ANNUAL CERTIFICATION LETTER 2015/16 35 - 38

To consider Grant Thornton's Annual Certification Work Letter for 2015/16.

(Copy Letter herewith)

A.3 EXTERNAL AUDIT PLAN 2016/17 39 - 60

To consider Grant Thornton's Audit Plan for 2016/17.

(Copy Audit Plan herewith)

A.4 EXTERNAL AUDIT PROGRESS AND UPDATE REPORT 61 - 78

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

(Copy Report herewith)

A.5 AUDIT COMMITTEE'S ANNUAL REPORT 79 - 98

The Chairman of the Audit Committee to submit a report summarising the work undertaken by the Audit Committee during 2016/17.

(Copy Report RD.59/16 herewith)

A.6 INTERNAL AUDIT PLAN 2017/18 99 - 120

The Chief Finance Officer to submit a report providing details of the Internal Audit Plan for 2017/18.

(Copy Report RD.61/16 herewith)

A.7 INTERNAL AUDIT PROGRESS REPORT 2016/17 **121 - 128**

The Chief Finance Officer to submit a report summarising the work carried out by Internal Audit and detailing progress against the 2016/17 Audit Plan.

(Copy Report RD.60/16 herewith)

The undernoted Final Audit Reports are submitted for consideration:

Audit of Development Management **129 - 142**

Audit of Rethinking Waste Project Management	143 - 160
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(Copy Reports herewith)

A.8 TREASURY MANAGEMENT OCTOBER - DECEMBER 2016 161 - 176

The Chief Finance Officer to submit a report providing the regular quarterly summary of Treasury Management Transactions for the third quarter of 2016/17. The matter was considered by the Executive on 13 February 2017.

(Copy Report RD.56/16 and Minute Excerpt herewith)

A.9 AUDITED ACCOUNTS 2016/17

177 - 180

Pursuant to Minute AUC.73/16, the Chief Finance Officer to submit a report concerning arrangements regarding the proposed audit approach for the earlier closure of the accounts for 2016/17.

(Copy Report RD.62/16 herewith)

A.10 RESPONSE FROM THE EXECUTIVE

181 - 182

Pursuant to Minute AUC.75/16, to receive the Executive's response to the reference from the Audit Committee concerning the Audit of Carlisle Enterprise Centre.

(Copy Minute Excerpt herewith)

PART B

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

- NIL -

Members of the Audit Committee

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

Labour – Bowditch, Ms Franklin, Ms Patrick, Mrs Riddle, Alcroft (sub), Ms Williams (sub), Wilson (sub)

Enquiries to:

Morag Durham - Tel: 817036

MINUTES OF PREVIOUS MEETING

AUDIT COMMITTEE

THURSDAY 22 DECEMBER 2016 AT 10.00 AM

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

OFFICERS: Corporate Director of Governance and Regulatory Services
Chief Finance Officer
Corporate Director of Economic Development (for Item A.5)

Group Audit Manager (Cumbria Shared Internal Audit Service)
Audit Manager (Cumbria Shared Internal Audit Service)

ALSO

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

The Deputy Leader, and Finance, Governance and Resources Portfolio Holder

AUC.66/16 CHAIRMAN'S COMMENTS

The Chairman welcomed all those present to the meeting. She also congratulated the Chief Finance Officer upon her appointment to that role.

AUC.67/16 APOLOGY FOR ABSENCE

An apology for absence was submitted on behalf of Councillor Ms Franklin.

AUC.68/16 DECLARATION OF INTEREST

Councillor Mrs Mallinson declared an interest in accordance with the Council's Code of Conduct in respect of Agenda item B.1 – Future of Internal Audit. The interest related to the fact that Councillor Mrs Mallinson is also a Member of Cumbria County Council.

AUC.69/16 PUBLIC AND PRESS

RESOLVED – That the Agenda be agreed as circulated.

AUC.70/16 MINUTES OF PREVIOUS MEETING

The Minutes of the meeting of the Audit Committee held on 27 September 2016 were submitted.

The Chairman informed Members that arrangements would be made for the workshop session alluded to at Minute AUC.60/16 to take place in the New Year.

RESOLVED – That the Minutes of the meeting of the Audit Committee held on 27 September 2016 be agreed as a correct record and signed by the Chairman.

AUC.71/16 MINUTES OF RESOURCES OVERVIEW AND SCRUTINY PANEL

The Minutes of the meetings of the Resources Overview and Scrutiny Panel held on 20 October and 6 December 2016 were submitted for information.

RESOLVED – That the Minutes of the meetings of the Resources Overview and Scrutiny Panel held on 20 October and 6 December 2016 be noted and received.

AUC.72/16 ANNUAL AUDIT LETTER 2015/16

The Associate Director (Grant Thornton) presented, for information, the Annual Audit Letter, the purpose of which was to summarise the key findings arising from the work carried out at Carlisle City Council for the year ended 31 March 2016. Members were reminded that the detailed findings arising from their audit work had been reported to the Committee in Grant Thornton's Audit Findings Report on 27 September 2016.

The Associate Director gave a brief overview of the key messages / risks identified as set out within the Annual Audit Letter. In so doing, he highlighted the fact that the certification of grant work had been completed on 25 November 2016. A number of areas of 40+ testing were required which had resulted in additional work, the detail in relation to which was self-explanatory.

Referencing page 43 of the Agenda Document Pack, the Associate Director stated that it had been a pleasure to work with the Council over the past year. A number of valuable outcomes had been delivered which demonstrated added value and he hoped that positive and constructive relationship would continue moving forward.

In terms of reports issued and fees, Members were asked to note that an additional fee in the order of £5,500 would be imposed to reflect the additional work required in relation to the Housing Benefit Grant Certification.

The Deputy Leader, and Finance, Governance and Resources Portfolio Holder wished to place on record his thanks to the Chief Finance Officer and her team; and the Audit Committee for their excellent work.

The Chairman added that the Committee had, at their last meeting, acknowledged the hard work undertaken by the Auditors and members of staff.

RESOLVED – (1) That the Audit Committee noted and received the Annual Audit Letter for 2015/16.

(2) That the additional fees in relation to Housing Benefit Grant Certification work be noted.

AUC.73/16 AUDIT COMMITTEE PROGRESS AND UPDATE REPORT

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

The Audit Manager provided an overview of progress as at December 2016 as detailed within the report, commenting in particular upon the fact that Grant Thornton had completed the work on the Housing Benefit Subsidy Claim on 25 November 2016, and a qualification letter was required. Although, there were no areas of significance to report to the Committee from the testing performed, the level of errors to report to the Department of Works and Pensions was higher than in previous years. Accordingly additional testing was required.

She advised that the audit fee for the claim was indicative based upon a level of testing conducted in a base year of 2013/14. The amount of work required in 2015/16 was higher than the base year and so an additional audit fee was required as a result of the increased sample testing. The outcome of the fee review would be updated in the Annual Certification Letter, scheduled to be submitted to the March 2017 meeting of the Committee.

The Audit Manager also outlined, in some detail, the position regarding the final accounts audit; accounting and audit issues; together with the availability of Grant Thornton publications as recorded within the report.

Referring to the final accounts audit (page 52), a Member noted that Grant Thornton anticipated that the scheduling of work would be during June and July 2017. Discussions were ongoing with Officers regarding the potential to have an earlier Audit Committee meeting (end of July / early August 2017). In 2017/18 the completion of the audit was required by 31 July 2018, so 2016/17 would be a 'dry run' for the Council and Auditors in advance of that significant change in the timing of the audit. She sought clarification in that regard.

The Chairman questioned whether Members wished to consider the matter today or, alternatively, wished to ask the Chief Finance Officer to look at options and report back.

Discussion arose, following which it was agreed that the Chief Finance Officer should be requested to consider the options and report back to the March 2017 meeting of the Committee.

The Chairman added that fluctuating increases in errors and the need for additional testing of the Housing Benefit Subsidy claim certification had been ongoing for some time. She suggested that the Revenues and Benefits Operations Manager attend the Committee when the matter was under consideration.

RESOLVED – (1) That the Audit Committee noted and received Grant Thornton's progress and update report for the year ending 31 March 2017.

(2) That the Chief Finance Officer be requested to give consideration to future arrangements in relation to the final accounts audit (referenced above), including potentially calling a special meeting of the Committee, and report back to the March 2017 Audit Committee.

(3) That Grant Thornton be thanked for the provision of their publications, copies of which were tabled.

AUC.74/16 FINAL ACCOUNTS PROCESS 2016/17

The Chief Finance Officer submitted report RD.44/16 providing information on the 2016/17 Final Accounts process.

The Chief Finance Officer reminded Members that the 2015/16 Annual Audit Findings Report, considered by the Committee on 27 September 2016, acknowledged the continuing significant improvements in the final accounts process compared to previous years. Six recommendations were made in the Audit Findings Report, the updated position in relation to which being recorded at Section 2.1 of the report.

Members' attention was drawn to the changes arising from the 2016 Code of Practice on Local Authority Accounting, further details in relation to which would be communicated once the implications of the Practitioners Guidance Notes had been assessed.

The Chief Finance Officer added that the existing Accounting Policies would be reviewed to reflect the changes in the 2016 Code of Practice and also to provide further explanation of other existing policies. The current policies were attached at Appendix A. Members were asked to consider the accounting policies as outlined to provide the basis for the preparation of the 2016/17 Accounts.

It was proposed that a training session (for Members) be held in June / July 2017 in order to facilitate their understanding of the Accounts; the accounting policies; and the main changes required as a result of the 2016 Code of Practice.

In response to a Member's questions, the Chief Finance Officer clarified the position regarding Recommendation 5 (carry out a review of the leases working paper to source documentation), adding that the issue would be picked up during her meeting with the Auditors in early January 2017.

Another Member considered the report to be extremely useful, suggesting that it could be shared with fellow Councillors thus providing an insight into the Department's work.

The Chief Finance Officer replied that one of the recommendations emanating from the Effectiveness Review related to promotion of the Audit Committee. The issue could be discussed as part of that work.

RESOLVED – That the Audit Committee noted the content of Report RD.44/16; and had considered the accounting policies to be used in the preparation of the 2016/17 Accounts.

AUC.75/16 INTERNAL AUDIT PROGRESS REPORT 2016/17

The Audit Manager (Cumbria Shared Internal Audit Service) submitted report RD.45/16 summarising the work carried out by Internal Audit and detailing progress against the Audit Plans for 2015/16 and 2016/17.

The Audit Manager informed Members that:

2015/16 Plan

The remaining two risk-based reviews (Overtime and Enterprise Centre) had now been finalised and those reports were included on the Agenda today.

The follow up review of Homeworking was ongoing, but was subject to reviewing evidence recently provided by management to confirm that the agreed action plan had been implemented. It was anticipated that would be available for submission to the next meeting of the Committee.

2016/17 Plan

The 2016/17 Annual Risk Based Audit Plan was agreed by the Audit Committee on 19 April 2016 – Report RD 01/16 referred.

A summary of the overall 2016/17 plan position was included at Appendix A for information.

A Member expressed concern that the date for submission of some of the audits set out at Appendix A was blank.

The Audit Manager clarified the position, giving an assurance that all work would be done. He was also pleased to report that many post audit customer satisfaction feedback forms were now being received.

The Chairman endorsed that sentiment since the issue of completion of the feedback forms had previously been raised by the Committee.

Performance measures for Internal Audit were also included for information at Appendix B.

Turning to the issue of final Audit Reports, the Audit Manager (Cumbria Shared Internal Audit Service) informed Members that there were four audit reports for consideration by the Committee today – Audit of Carlisle Enterprise Centre (15/16 Plan); Audit of Overtime (15/16 plan); Audit of External Communications; and Audit of Electoral Registration.

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

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

Audit of Carlisle Enterprise Centre (Partial Assurance Opinion)

Speaking at the request of the Chairman and in response to questions, the Corporate Director of Governance and Regulatory Services explained that 'Tenancy at Will' was a form of legal agreement without the security of tenure provided by a Lease; a tenancy which could be ended by either the landlord or the tenant at any time.

The Corporate Director of Economic Development added that the Agreements afforded people the opportunity to move on as their business grew and developed.

The Deputy Leader, and Finance, Governance and Resources Portfolio Holder questioned whether the authority would be open to challenge in a scenario whereby a tenant had been in occupation for a number of years.

The Corporate Director of Governance and Regulatory Services acknowledged that challenge could occur, but further made the point that tenancies at will existed in law and it was open to the Council, as a landlord, to use them for its tenants when appropriate.

Speaking by way of background, the Corporate Director of Economic Development informed Members that there had been many changes in terms of the facility / personnel. She had therefore requested that the audit be undertaken in order to provide assurance over management arrangements for governance, risk management and internal control in the areas of management of the Enterprise Centre; administration of rents and charges; and Tenancy At Will Agreements.

The Corporate Director was confident that processes were in place, which needed to be documented. She welcomed the audit review, adding that a number of the management actions were already being implemented.

- *A Member found the situation to be extremely worrying and questioned the allocation of a 'partial' assurance as opposed to a 'limited' assurance. He further questioned what would happen to the audit report moving forward.*

In response the Corporate Director of Governance and Regulatory Services explained the background to the introduction of Schemes of Sub-Delegation within the City Council.

Whilst Recommendation 2 (management should set a timescale for the approval of the Economic Development Scheme of Sub-Delegation) was valid, the authority had operated since 1974 without the detailed documentation of sub-delegation.

The Corporate Director of Economic Development commented that the issues were being addressed and she wished to place on record thanks to the Investment and Policy Manager for his significant achievements, which had been reflected in the audit findings.

The Chief Finance Officer reminded the Committee that a follow-up review would be undertaken, which would be reported back to Members in line with established practice.

- *The audit had highlighted a number of issues / risks, health and safety being of major importance. A Member suggested that the time had come for the Executive to take a view on the future of the Enterprise Centre.*

The Corporate Director of Economic Development advised that business incubation was no longer in place and responsibility for the provision of business support now lay with the private sector and, in particular, the Chamber of Commerce. The Enterprise Centre operated as managed work space to enable people to rent / lease space from which to run their business. The issue of Health and Safety was around the documentation of actions undertaken.

The Deputy Leader, and Finance, Governance and Resources Portfolio Holder provided an overview of the position regarding the Enterprise Centre.

The Corporate Director of Economic Development added that the Economy, Enterprise and Housing Portfolio Holder was fully briefed; the Environment and Economy Overview and Scrutiny Panel received regular reports; in addition the issue had been the focus of a recent Task and Finish Group. Regular consideration was therefore given to how the Enterprise Centre functioned and was supported.

Audit of Overtime (Reasonable Assurance Opinion)

No questions or concerns were raised in relation to the audit.

Audit of External Communications (Substantial Assurance Opinion)

Members commented upon the excellence of the report, suggesting that the policies adopted within the Communications Team should be held up as examples of best practice.

Audit of Electoral Registration (Reasonable Assurance Opinion)

In response to a question, the Corporate Director of Governance and Regulatory Services considered that, whilst spare capacity did not exist, sufficient resources were in place within the Electoral Services Team to undertake the work.

RESOLVED – (1) That Report RD.45/16 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 received the finalised audit reports referred to in Section 4, subject to the following:

Audit of Carlisle Enterprise Centre:

- (a) The Committee recognised the proactive nature of the audit assessment which added value by the identification of a number of areas of risk; noted that the Scheme of Sub-Delegation would be approved, and the good management response to the audit recommendations.
- (b) It was suggested that the Chairman of the Environment and Economy Overview and Scrutiny Panel has sight of the audit review, and bears it in mind during future scrutiny of the Enterprise Centre.
- (c) That the Audit Committee would receive a follow-up review at a future meeting.
- (d) That the Executive be advised that the Audit Committee was reassured by the overview provided.

Audit of External Communications:

That the Audit Committee was pleased to receive this excellent audit review report; and extended congratulations to the Policy and Communications Manager and staff for their work during what had been a difficult year in the aftermath of the December 2015 floods.

The meeting adjourned at 11.00 am and reconvened at 11.10 am

The Group Audit Manager (Cumbria Shared Internal Audit Service) retired from the meeting.

AUC.76/16 TREASURY MANAGEMENT STRATEGY STATEMENT, INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION STRATEGY 2017/18

The Chief Finance Officer submitted report RD.42/16 setting out the Council's draft Treasury Management Strategy Statement for 2017/18 in accordance with the CIPFA Code of Practice on Treasury Management.

She informed Members that the draft Investment Strategy and the draft Minimum Revenue Provision (MRP) Strategy for 2017/18 were incorporated as part of the Statement, as were the Prudential Indicators as required within the Prudential Code for Capital Finance in Local Authorities.

The Chief Finance Officer outlined, in some detail, the Council's investment priorities; the MRP Strategy (which was technical in nature); and the borrowing strategy. She added that the Strategy would be revised to include an update on the Government backed banks i.e. Lloyds Group and RSB (Royal Bank of Scotland) Group prior to submission to Council in February 2017.

The Executive had considered the matter on 19 December 2016 and an Excerpt from the Minutes of that meeting (EX.127/16) was also submitted. The Resources Overview and Scrutiny Panel was scheduled to consider it on 5 January 2017.

Members were asked to note and comment upon the proposed Treasury Management Strategy for 2017/18.

In response to a Member's questions, the Chief Finance Officer emphasised that the authority adopted a prudent approach to the management of its financial affairs.

The Chairman noted that the Council had commissioned Capita Asset Services to review its MRP policy (Section 10.5 referred). She questioned what changes would arise for 2017/18.

The Chief Finance Officer replied that there may be some adjustments as a result of previous decisions e.g. a MRP holiday was proposed in the Executive's 2017/18 Budget Proposals issued for consultation.

The Audit Manager (Grant Thornton) added that, under the new MRP regime, local authorities had a statutory duty to demonstrate a level of the prudence. Grant Thornton's role was to ensure that a prudence approach had been undertaken by the Authority and furthermore the MRP Review and proposed 'holiday' would be discussed with Officers. The matter was extremely technical and may need to be looked at in more detail.

The Chairman stated that Members may wish to look at the MRP in more detail as part of their training.

RESOLVED – That, subject to the observations detailed above, the Treasury Management Strategy Statement, Investment Strategy and Minimum Revenue Provision Strategy 2017/18 be noted.

AUC.77/16 TREASURY MANAGEMENT SEPTEMBER 2016 AND FORECASTS FOR 2017/18 TO 2021/22

The Chief Finance Officer presented report RD.34/16 providing the regular quarterly summary of Treasury Management Transactions for the second quarter of 2016/17, together with budgetary projections for 2017/18 to 2021/22.

Members' attention was drawn to Section 1.5 which recorded that CAPITA was forecasting a further reduction in interest rates to 0.10% before the end of the year with rates not rising again until Quarter 2 of 2018. However, the Chief Finance Officer updated Members with more recent information which assumed no change to the current 0.25% base rate until Quarter 3 of 2018.

Interest receivable was still exceeding budgeted projections even though average investment returns had fallen slightly against that forecast when the budget was set. That fall in returns was partly due to the reduction in bank base rates 0.25% although investment rates had not yet seen the same 0.25% reduction. The CCLA property investment saw a decrease in the capital value to the end of June, but had steadied since in the second quarter with the valuation remaining at a similar level. Dividends and yield remained at over 4.89%

The Executive had, on 21 November 2016, received Report RD.34/16 and the projections for 2017/18 to 2021/22 incorporated into the Budget reports considered elsewhere on the Executive Agenda (Minute EX.105/16 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.

RESOLVED – That the Chief Accountant and his team be thanked for the production of Report RD.34/16 which was noted.

AUC.78/16 CORPORATE RISK MANAGEMENT

The Corporate Director of Governance and Regulatory Services presented report SD.32/16 providing an update on the Council's risk management arrangements.

The Corporate Risk Register (CRR) had been submitted to the Resources Overview and Scrutiny Panel on 20 October 2016 (Report SD.20/16) for monitoring in accordance with the Council's Risk Management Policy. A copy of Minute Excerpt ROSP.80/16 was also provided.

The Corporate Director advised that the CRR was reviewed by the Corporate Risk Management Group (CRMG) and the Senior Management Team (SMT) in September / October 2016.

At the September meeting of the CRMG it was agreed that the Group would meet twice a year - once in February following the meeting of full Council which agreed the budget for the next financial year, and again in October to review the actions and position from the earlier meeting. Special meetings would be called by the Chairman should risks be escalated and require an intervention from the CRMG or SMT.

The Audit Committee was asked to note the contents of the report as evidence of the continuing commitment to and culture of sound governance arrangements for corporate risk management.

The Chairman indicated that it was pleasing to note that audit recommendations from the recent audit of Risk Management had now been implemented, which strengthened the control environment.

RESOLVED – That the Audit Committee noted the content of Report SD.32/16 as evidence of the continuing commitment to and culture of sound governance arrangements for corporate risk management.

AUC.79/16 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.80/16 FUTURE OF INTERNAL AUDIT (Public and Press excluded by virtue of Paragraph 3)

The Audit Manager (Cumbria Shared Internal Audit Service) retired from the meeting prior to this item of business.

Councillor Mrs Mallinson, having declared an interest, remained within the meeting room and took part in discussions.

Pursuant to Minute AUC.63/16, the Chief Finance Officer reported (RD.46/16) 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 arrangement would terminate on 31 March 2017. The Executive had confirmed (Minute EX.97/16) that the Council would not continue with the Internal Audit Shared Service arrangement with the County Council post March 2017; and had agreed, in principle, to bring the service back in-house subject to an appropriate financial appraisal and business case being considered and approved at a future meeting of the Executive.

The Chief Finance Officer advised that the draft business case on the future delivery of the internal audit function as an in-house service provision was now submitted for consideration by Members of the Audit Committee. She outlined in detail the content of the business plan, which addressed the concerns expressed by Members at a previous meeting and which were also detailed within her report for information.

The Deputy Leader, and Finance, Governance and Resources Portfolio Holder indicated that he had held detailed discussions with the Chief Finance Officer and Chief Accountant, and was comfortable with the position moving forward.

Comprehensive discussion arose, during which Members raised the following observations:

- If it was ultimately agreed that the Internal Audit function should be delivered in-house, it would be prudent and indeed useful to review service delivery in 2 years (an appropriate methodology / measures should be put in place)
- Concern at the potential financial risk to the authority relative to TUPE terms and conditions / job evaluation
- Governance arrangements (including reference to the CIPFA statement on the Role of the Head of Internal Audit) should be properly documented within the Council's Constitution from the outset
- Consideration should be given to networking in order that internal audit staff may benefit from the sharing of knowledge and experience
- A Member indicated that he had initially been concerned about the authority's ability to demonstrate independence, but was now very much reassured on that aspect
- The benefits / disadvantages of procurement should have been included within the report to assist in decision making

That the Chief Finance Officer be thanked for her very detailed report.

The Chief Finance Officer, and the Corporate Director of Governance and Regulatory Services responded to the issues raised, together with a number of questions in relation to independence; the role of the Head of Internal Audit; recruitment of internal audit staff; TUPE arrangements; and transitional arrangements.

Referring to the regulatory framework for internal audit (Section 2), the Associate Director (Grant Thornton) stated that the Standards required that a self-assessment be undertaken each year, with an independent review on top of that every five years. He further emphasised the need for the authority to demonstrate that it was 'adding value'. It was therefore appropriate for the City Council to consider all available options.

The Audit Manager (Grant Thornton) welcomed the caveats provided in relation to independence.

RESOLVED – That the Audit Committee had given detailed consideration to Report RD.46/16 and the draft business case, the submission of which was welcomed, and made the undernoted comments and observations for transmission to the Executive:

- (a) The Audit Committee supported the 'in principle' decision to bring the Internal Audit service back in-house.
- (b) Consideration needed to be given to TUPE arrangements and the implementation of good governance arrangements for the operation of the Internal Audit function.
- (c) That the Audit Committee recommended that a desk top exercise be undertaken which detailed the advantages / disadvantages of an external procurement process to be submitted to the Executive to inform decision making.
- (d) The Audit Committee expects that a full external review of the Internal Audit function be undertaken within 2 years of the service coming back in-house (in line with CIPFA practice) in order that the Committee may receive the required level of assurance that the service was working effectively.

The Chairman concluded the meeting by wishing everyone a very merry Christmas.

[The meeting ended at 12 noon]

RESOURCES OVERVIEW AND SCRUTINY PANEL

THURSDAY 5 JANUARY 2017 AT 10.00AM

PRESENT: Councillor Watson (Chairman), Councillors Allison, Bowditch, Mrs Bowman, Mallinson J, McDonald, Mrs Riddle and Robson.

ALSO PRESENT: Councillor Dr Tickner – Finance, Governance and Resources Portfolio Holder
Councillor Nedved – Chairman of Environment and Economy Overview and Scrutiny Panel
Councillor Burns – Chairman of Community Overview and Scrutiny Panel

OFFICERS: Town Clerk and Chief Executive
Corporate Director of Governance and Regulatory Services
Chief Finance Officer
Chief Accountant
Overview and Scrutiny Officer

ROSP.01/17 APOLOGIES FOR ABSENCE

An apology for absence was submitted on behalf of Councillor Patrick, Chairman of the Audit Committee.

ROSP.02/17 DECLARATIONS OF INTEREST

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

ROSP.03/17 PUBLIC AND PRESS

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

ROSP.04/17 MINUTES OF PREVIOUS MEETING

In response to a Member's question the Town Clerk and Chief Executive agreed to circulate the date of the next Carlisle Ambassadors meeting to Members along with their newsletter. He added that he would submit a report on Carlisle Ambassadors to the April meeting of the Panel.

RESOLVED – That the minutes of the meetings held on 20 October 2016 and 6 December 2016 be agreed as a correct record of the meeting and signed by the Chairman.

ROSP.05/17 CALL - IN OF DECISIONS

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

ROSP.06/17 OVERVIEW REPORT AND WORK PROGRAMME

The Overview and Scrutiny Officer presented report OS.01/17 and provided an overview of matters that related to the work of the Resources Overview and Scrutiny Panel.

The Panel's Work Programme for the current year had been circulated and the following items were scheduled:

Performance Report Options
Budget Monitoring 2016-17
Performance Monitoring
Sickness Absence (tentative)
Carlisle Ambassadors Group
Flood Update Report
Digital Vision and Technology 5 Year Strategy
Smarter Service Delivery Project

Due to the large number of items scheduled for the next Panel meeting it was agreed that the Chairman, Vice Chairman and Overview and Scrutiny Officer would look at the scheduled items and programme them in over the next two meetings of the Panel.

RESOLVED – 1) That the Overview Report incorporating the Work programme and Key Decision items relevant to this Panel (OS.01/17) be noted.

2) That the following items be included on the agendas for the Panel's meetings on 23 February 2017 or 13 April 2017:

- Performance Report Options
- Budget Monitoring 2016-17
- Performance Monitoring
- Sickness Absence (tentative)
- Carlisle Ambassadors Group
- Flood Update Report
- Digital Vision and Technology 5 Year Strategy
- Smarter Service Delivery Project

ROSP.07/17 BUDGET 2017/18

The Chairman welcomed the Chairs of the Environment and Economy and Community Overview and Scrutiny Panels to the meeting.

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

There was submitted Minutes of the meeting of the Executive held on 12 December 2016 detailing the response of the Executive to the comments made by the Overview and Scrutiny Panels in response to the first round of Budget scrutiny.

RESOLVED – That the decisions of the Executive on 12 December 2016 be received.

(2) Executive Draft Budget Proposals

There was submitted the Executive draft Budget proposals 2017/18 which had been issued for consultation purposes.

The draft Budget proposals comprised:

Section	Detail
A	Background and Executive Summary
B	Revenue Budget 2016/17 to 2021/22 <ul style="list-style-type: none"> • Schedule 1 - Existing Net Budgets • Schedule 2 - Proposed Budget Reductions • Schedule 3 - Recurring Budget Increases • Schedule 4 - Non-Recurring Budget Increases • Schedule 5 - Summary Net Budget Requirement • Schedule 6 - Total Funding and Provisional Council Tax
C	Capital Programme 2016/17 to 2021/22 <ul style="list-style-type: none"> • Schedule 7 - Estimated Capital Resources • Schedule 8 - Proposed Capital Programme • Schedule 9 - Summary Capital Resource Statement
D	Council Reserves Projections to 2021/22 <ul style="list-style-type: none"> • Schedule 10 - Usable Reserves Projections
E	Budget Discipline and Saving Strategy
F	Statutory Report of the Chief Finance Officer
G	Glossary of Terms

These budget proposals were based on detailed proposals that have been considered by the Executive over the course of the last few months. In particular the reports of the Chief Finance Officer were considered at the Executive meeting of 19th December 2016.

The Finance, Governance and Resources Portfolio Holder reported that the Budget assumed a £5 (2.54%) increase in Council Tax for a Band D property, which equated to less than 10 pence per week. The Executive was aware of the financial difficulties faced by many families. It was not therefore their intention to revise the Council Tax Discount Scheme which would continue at the statutory levels thus protecting vulnerable groups.

Referencing Schedule 2, he highlighted proposed Budget reductions in respect of

- Inflation – an annual budget reduction of £104,000 was predicted
- A Review of base budgets had been undertaken to identify areas where budgets had been underspent historically and where savings could be made by reducing to a realistic and achievable level - £403,000
- The Council had undertaken a review of its Minimum Revenue Provision (MRP) Policy and the amounts charged as MRP since 2003/04. It had been identified that an MRP holiday could be taken due to over provision in previous years and also a reduced MRP charge in future years by charging MRP at 3% straight line, rather than 4% reducing balance - £363,000
- New Homes Bonus allocations had been adjusted for the Local Government Finance Settlement announced in December 2016

He outlined in some detail the key Budget pressures which included:

- Treasury Management as a result of reduced interest rate forecasts
- Income shortfalls due to tenants vacating the Civic Centre, although it should be noted that the Council was actively marketing the building
- Recurring budgets included for Homelife and Clean Up Carlisle in line with corporate priorities
- Income shortfalls on car parks in order to limit fee increases to 10 pence per charging band

Nevertheless, the Executive had been able to produce a balanced budget over the lifetime of the Medium Term Financial Plan.

Public Service budgets had been subject to ongoing reductions. Since 2010/11 it had been necessary to find some £7 million in savings, with a further £1.201 million to be found in 2016/17 and £2.274 million more by 2020. That affected the authority's ability to deliver and maintain services. Ratepayers continued to pay the same amount of Council tax however the central government cuts effectively reduced every £1 paid to around 60p; a 40% reduction.

With regard to the Civic Centre rental offer the Portfolio Holder explained that there was a large amount of office accommodation currently available within the City and as a result the budget had assumed a pressure of £158,000 which reflected the loss of income from the County Council and other tenants vacating the Civic Centre.

The Chief Finance Officer commented that the draft Revenue Support Grant figures recently announced by the DLCCG were very much in line with the MTFP's figures. Although reserve balances dip below the recommended £2million target, plans were in place to maintain reserves at a prudent level during the lifetime of the MTFP. She further reported that there were some draft figures included in the consultation document some of which cannot be calculated under statute until mid-January. Draft figures included the council taxbase and surplus, final confirmation of the RSG settlement and the Pension Fund Valuation. Therefore those figures may be subject to change prior to the Council budget meeting in February.

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

- A Member was pleased that the over 60 discount for allotments would be retained and asked for the justification for the overall increase to allotment fees.

The Portfolio Holder explained that an increase to the allotment fees was necessary and it was felt that smaller increases each year would be more palatable.

- There had been concern that the proposed increase to bulky waste collection charges would lead to an increase in fly tipping, had this matter been reconsidered?

The Portfolio Holder responded that the increase had been carefully considered and was due to an increase in the cost of staff, fuel and tipping charges; areas which were out of the Council's control.

- When would car parking charges be considered again by Overview and Scrutiny?

The Portfolio Holder reminded the Panel that all charges were reviewed annually. The car parking charges were monitored carefully throughout the year and any proposed changes would be reported as necessary.

- Members understood that there were some difficulties in letting out space within the Civic Centre. Was there a timescale for the proposals for the ground floor of the Civic Centre to be considered by Overview and Scrutiny?

The Portfolio Holder reported that proposals for the ground floor were being considered as part of the ongoing negotiations with the insurance company and proposals would be submitted for scrutiny when the options had been agreed. With regard to letting out space within the Civic Centre the Portfolio Holder explained that the building as an asset required some work to make it a more marketable space. He added that he would provide further information on the timescales for the ground floor.

- The Panel asked for information to be brought back to the Panel to a future meeting which detailed the external funding which the new Funding Officer had accessed.

The Portfolio Holder agreed to look at the monitoring process for the Funding Officer and report back to a future meeting.

- How many consultation responses had been received from members of the public?

The Portfolio Holder reported that the number of responses varied but there was not as many as the Council would hope for despite the promotion that was carried out.

A Member suggested that consideration be given to the budget consultation documents which members of the public were asked to comment on. The current budget consultation document was lengthy and difficult to understand; if it was possible to make it easier to understand it may encourage more consultation responses.

The Chief Finance Officer agreed to take members comments on board and give consideration to the consultation documents for future budgets.

- What evidence was there that the £140,000 non-recurring budget pressure for the Lanes would not recur after 2017/18?

The Portfolio Holder explained that the pressure reflected expected levels of income from the Lanes for 2017/18 only. Estimates were that from 2018/19 the levels of income should return to the current budget projections. He added that the shops within the Lanes were performing well and this was reflected in the commitment existing businesses had made. The City Council could not influence the market trends but could ensure that the right offer was available for businesses and the public. The non-recurring pressure showed confidence in the City.

A Member agreed that the authority was doing the best it could but asked if, under the current climate, it was time to revisit the masterplan for Rickergate.

The Town Clerk and Chief Executive added that the non-recurring pressure was based on a combination of evidence and pragmatism, the Executive had reason to believe that the revenue position would improve in the future and was optimistic about the future of the City Centre. The alternative was a less optimistic assessment which would result having to make in more savings within the authority. He reminded Members that the masterplan was part of the Local Plan and was a long term aspiration which had been through Scrutiny, Executive and Council for approval. The evidence gathered for the masterplan strongly suggested that there was demand to retain retail in the City Centre.

A Member felt that the non-recurring pressure showed confidence in the City Centre and believed that there was a future for a smaller, vibrant city centre which catered to niche markets. He added that the Council's role was to facilitate and help the market process.

- Where was the rental space in the Civic Centre advertised or promoted?

The Town Clerk and Chief Executive clarified that the accommodation was not yet being advertised. There needed to be some consideration of the space available and some consolidation of empty floors to make the space more marketable. The Portfolio Holder added that previously there had been some promotion of parts of floors but this was not suitable for the market. The priority at this time was the ground floor and the Customer Contact Centre.

- Members commented that they were very pleased that the expression of interest for the Garden City had been successful.
- A Member congratulated officers and the Executive for a positive budget.

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

2) That the Finance, Governance and Resources Portfolio Holder provide the Panel with information regarding the timescales for the reinstatement of the ground floor of the Civic Centre;

3) That consideration be given to the future format of budget consultation documents to enable members of the public to engage in the process;

4) That the monitoring arrangements for the external funding accessed by the Funding Officer be reported to a future meeting of the Panel.

(3) Background Information Reports

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

The Chief Finance Officer submitted report RD.40/16 providing a draft summary of the Council's revised revenue estimates for 2016/17, together with base estimates for 2017/18 and updated projections to 2021/22. The report included the impact of the new savings and new spending pressures currently under consideration and the potential impact on the Council's overall revenue reserves.

The Executive had considered the matter on 19 December 2016 (EX.125/16 refers) and decided:

“That the Executive:

- (i) noted the revised base estimates for 2016/17 and base estimates for 2017/18;
- (ii) noted that the RSG figures had now been incorporated into the Executive Budget Proposals 2017/18 for consultation purposes;
- (iii) noted the current MTFP projections, which would continue to be updated throughout the budget process as key issues became clearer and decisions were taken;
- (iv) noted the budget pressures/savings needing to be taken into account as part of the 2017/18 budget process;
- (v) Noted the Statutory Report of the Chief Finance Officer outlining the risks associated with the draft budget figures and that minimum reserves may need to be increased in the future depending upon the outcome of the Local Government Finance review.”

RESOLVED – That the Budget Update – Revenue Estimates 2017/18 to 2021/22 (RD.40/16) be noted.

(b) Revised Capital Programme 2016/17 and Provisional Capital Programme 2017/18 to 2021/22

The Chief Finance Officer submitted report RD.41/16 which provided a draft summary of the Council's revised capital estimates for 2016/17 together with base estimates for 2017/18 and updated projections to 2021/22.

The Executive had considered the matter on 19 December 2016 (EX.126/16 refers) and decided:

“That the Executive:

- (i) Noted the revised capital programme and relevant financing for 2016/17 as set out in Appendices A and B to Report RD.41/16;
- (ii) Had given consideration and views on the proposed capital spending for 2017/18 to 2021/22 given in the report in the light of the estimated available resources;
- (iii) Noted that any capital scheme for which funding had been approved by Council may only proceed after a full report, including business case and financial appraisal, has been approved.”

RESOLVED – That the Revised Capital Programme 2016/17 and Provisional Capital Programme 2017/18 to 2021/22 (RD.41/16) be noted.

(c) Treasury Management Strategy Statement, Investment Strategy and Minimum Revenue Provision Strategy 2017/18

The Chief Finance Officer submitted report RD.42/16 which set out the Council's Treasury Management Strategy Statement for 2017/18, In accordance with the CIPFA Code of Practice on Treasury Management. The Investment Strategy and the Minimum Revenue Provision (MRP) Strategy for 2017/18 are also incorporated as part of the Statement along with the Prudential Indicators as required within the Prudential Code for Capital Finance in Local Authorities.

The Executive had considered the matter on 19 December 2016 (EX.127/16 refers) and noted the Draft Treasury Management Strategy Statement for 2017/18, which incorporated the Draft Investment Strategy and the Draft Minimum Revenue Provision (MRP) Strategy, together with the Prudential Indicators for 2017/18 for draft budget consultation purposes as set out in Appendix A and the Treasury Management Policy Statement as set out at Appendix D to Report RD.42/16.

A Member asked for an explanation for the term ‘over-borrowed’ which had been used in the report.

The Chief Accountant responded that the term referred to the £15m borrowing and reflected the fact that cash back reserves and working capital added up to less than the balance of investments, with the remaining investment amount being made up of ‘over borrowing’. The Capital Financing Requirement currently indicated that the Council may only need to borrow £13m in the future to finance the Council's assets. Therefore the Council currently had more borrowing than was needed to finance capital assets and the extra borrowing was in investment balances. He further advised that being over borrowed was nothing to be concerned about. It merely had the benefit of providing additional cash for investment purposes but was very much dependent upon the balance on the Capital Financing Requirement (CFR) at particular point in time.

Members asked for a full written explanation.

RESOLVED – 1) That the Treasury Management Strategy Statement, Investment Strategy and Minimum Revenue Provision Strategy 2017/18 (RD42/16) be noted

2) That the Chief Accountant provide a written explanation regarding the term ‘over-borrowed’.

ROSP.08/17 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.

ROSP.09/17 FUTURE OF INTERNAL AUDIT

(Public and Press excluded by virtue of Paragraph 3)

The Chief Finance Officer reported (RD.31/16) 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 summarised the options available to the Council and made recommendations, giving reasons therefor.

Issues and recommendations raised previously by the Audit Committee were discussed further within the report.

The Chief Finance Officer reminded the meeting that, prior to 2010, the Internal Audit function had been provided in-house. .

The Executive had considered the matter on 24 October 2016 (EX.97/16 refers) and decided:

“That the Executive:

1. Confirmed that the Council would not continue with the Internal Audit Shared Service arrangement with the County Council post March 2017.
2. Agreed, in principle, to bring the service back in-house subject to an appropriate financial appraisal and business case being considered and approved at a future meeting of the Executive.”

The Audit Committee had considered the matter on 22 December 2016 (AUC.80/16 refers) and decided:

“That the Audit Committee had given detailed consideration to Report RD.46/16 and the draft business case, the submission of which was welcomed, and made the undernoted comments and observations for transmission to the Executive:

- (a) The Audit Committee supported the ‘in principle’ decision to bring the Internal Audit service back in-house.
- (b) Consideration needed to be given to TUPE arrangements and the implementation of good governance arrangements for the operation of the Internal Audit function.

- (c) That the Audit Committee recommended that a desk top exercise be undertaken which detailed the advantages / disadvantages of an external procurement process to be submitted to the Executive to inform decision making.
- (d) The Audit Committee expects that a full external review of the Internal Audit function be undertaken within 2 years of the service coming back in-house (in line with CIPFA practice) in order that the Committee may receive the required level of assurance that the service was working effectively.”

In response to a question the Corporate Director of Governance and Regulatory Services explained the legality of a shared service and detailed how the Audit Shared Service arrangement with the County Council had evolved over time and moved away from being a shared service in law.

A Member raised concerns that the service was growing when all other departments were being reduced and the Portfolio Holder reminded the Panel that not all services were being reduced and, in fact, some services were expanding to deliver the authority’s priorities. He added that the proposed changes to the internal audit service would increase the number of audit days and remain within the same budget.

There were some concerns about how the service could remain independent and the Corporate Director explained that the changes would enable an independent assessment as required by an internal audit function but it was also hoped that the improved service would assist the Council in improving service delivery. The internal auditors would understand how the Council wanted to work and help deliver the services to achieve priorities.

RESOLVED – That the Future of Internal Audit report (RD.46/16) be welcomed.

(The meeting ended at 11.20am)

RESOURCES OVERVIEW AND SCRUTINY PANEL

THURSDAY 23 FEBRUARY 2017 AT 10.00AM

PRESENT: Councillor Watson (Chairman), Councillors Allison, Bowditch, Mrs Bowman, Mallinson J, McDonald, Mrs Riddle and Robson.

ALSO PRESENT: Councillor Dr Tickner – Finance, Governance and Resources Portfolio Holder
Charlie Paterson – Work Experience Student

OFFICERS: Town Clerk and Chief Executive
Chief Finance Officer
Head of Digital and Information Services
Principal Accountant
Policy and Performance Officer
Overview and Scrutiny Officer

ROSP.10/17 APOLOGIES FOR ABSENCE

There were no apologies for absence submitted.

ROSP.11/17 DECLARATIONS OF INTEREST

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

ROSP.12/17 PUBLIC AND PRESS

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

ROSP.13/17 MINUTES OF PREVIOUS MEETING

Referring to Minute reference ROSP.07/17 (2) a Member thanked the Finance, Governance and Resources Portfolio Holder for his written response to the Panel's request for information on the future of the ground floor of the Civic Centre. She felt, however, that the information did not provide all of the required details and asked for details of the actual options / plans for the ground floor.

The Finance, Governance and Resources Portfolio Holder informed the Panel that the Council was taking part in detailed negotiations with the insurance loss adjusters. When the negotiations were finalised then detailed plans and options would be drawn up. There were a number of options available for the ground floor, the insurance would pay for the reinstatement of the ground floor as it was but this was not an option for the Executive. The negotiations were to determine what the insurance would pay then options based on the resources available would be drawn. He assured Members that the Executive would send the options out for scrutiny consultation before any decision was taken.

The Chief Finance Officer added that there had been two issues which had delayed the negotiations; the first was the scope of the reinstatement and the second was the rate for the work. Meetings had taken place with the loss adjusters and an outcome was expected before the end of February.

RESOLVED – That the minutes of the meeting held on 5 January 2017 be noted.

ROSP.14/17 CALL - IN OF DECISIONS

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

ROSP.15/17 OVERVIEW REPORT AND WORK PROGRAMME

The Overview and Scrutiny Officer presented report OS.05/17 and provided an overview of matters that related to the work of the Resources Overview and Scrutiny Panel.

The Notice of Executive Key Decisions had been published on 10 February 2017 and there were no items within the remit of the Panel.

The Panel's Work Programme for the current year had been circulated and the following items were scheduled for the next meeting on 13 April 2017:

Carlisle Ambassadors Group
Smarter Service Delivery Project
Flood Update Report
Corporate Risk Register
Procurement Strategy
Scrutiny Annual Report

RESOLVED – 1) That the Overview Report incorporating the Work Programme and Key Decision items relevant to this Panel (OS.05/17) be noted.

2) That the following items be included on the agenda for the Panel's meeting on 13 April 2017:

- Carlisle Ambassadors Group
- Smarter Service Delivery Project
- Flood Update Report
- Corporate Risk Register
- Procurement Strategy

ROSP.16/17 TECHNOLOGY STRATEGY PROGRESS

The Head of Digital and Information Services gave a presentation updating the Panel on the Implementation of the Digital (ICT) Strategy.

The Head of Digital and Information Services reported that all 6 of the Internal Audit recommendations, including the Communications Plan, had been implemented within the agreed timescales. The email protection and archiving service, which blocked 65,000 emails a day, had been implemented in August 2016 and ICT had received positive feedback from Members and staff. Work had also begun on the move to a Cloud based system and authentication and ID services were in place.

The Head of Digital and Information Services explained that the first Salesforce services went live in August 2016 and more services were coming on stream. The Salesforce based IT Help Desk went live in November and the closedown of the previous CRM applications in April would make a saving of £65,000. A review of the Salesforce roadmap would take place in June.

The next six months would see Phases 3 and 4 of the Salesforce Development Roadmap and the rollout of Office 365. The implementation of a cloud based computer room had begun and a reduction of 25% in hardware had already been achieved.

A formal review of the Strategy would begin in July 2017 and would consider:

- Alignment with strategic direction of the Council;
- Technological advancements;
- Legislative and Regulatory review;
- Resources;
- Finance

The Head of Digital and Information Services summed up by informing the Panel that the development of the Salesforce platform and the migration to the cloud were proceeding on schedule, the budget for implementation of the Strategy had been agreed as part of the budget process and planning had begun for the next 6 to 18 months along with a review of the Strategy.

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

- 4 of the 6 services previously reported on had been moved to Salesforce, when would the remaining services be moved?

The Head of Digital and Information Services responded that all applications that could be hosted in the Cloud would be moved over by April 2018.

- Had there been any problems during the implementation of the Strategy?

The Head of Digital and Information Services confirmed that there had been some issues but they had been of a technical nature, fortunately the Council had good technical staff and they could call on expertise when required.

- Why had the Strategy expenditure been £111,712 over budget?

The Finance, Governance and Resources Portfolio Holder explained that the budget had been allocated for the Strategy but due to the flood, there had been a delay in releasing the funds. The funds had now been released.

- A Member asked that future updates on the ICT Strategy be presented in report format rather than a presentation to allow Members to read the information and prepare for the meeting.

RESOLVED – 1) That the presentation on the Technology Strategy Progress be welcomed;

2) That future updates on the Technology Strategy be presented in report format.

ROSP.17/17 REVENUE BUDGET OVERVIEW AND MONITORING REPORT: APRIL TO DECEMBER 2016

The Chief Finance Officer submitted the Revenue Budget Overview and Monitoring Report for the period April to December 2016 (RD.54/16). She outlined the overall budgetary position and the monitoring and control of expenditure against budget allocations, together with the exercise of virement.

Details of the main variances in the Directorates' budgets; together with a subjective analysis of the summarised budgetary position as at December 2016 excluding flood related items were provided at tables 3.1 and 3.4 to the report.

In terms of the forecast outturn position 2016/17, the report recorded that the Council's financial position was affected by a number of external factors (including the general effect of local economic activity on the Council's income streams; fuel prices, energy costs and other

inflationary issues; and the effects of the housing market and property prices, especially with regard to income from land charges, rents and building and development control).

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

The Executive had considered the matter at their meeting on 13 February 2017 (EX.17/17 refers) and resolved:

“That the Executive:

- (i) Noted the budgetary performance position of the Council to December 2016;
- (ii) Noted the potential forecast year end commitments as detailed in paragraph 4 of Report RD.54/16;
- (iii) Noted the action by the Chief Finance Officer to write-off bad debts as detailed in paragraph 6.
- (iv) Made recommendations to Council to approve re-profiling of £97,000 as detailed in paragraph 4 from 2016/17 into 2017/18.”

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

- A Member asked for an explanation for the shortfall on income from the Lanes of £515,200.

The Chief Finance Officer reported that £269,700 related to a head rent adjustment for 2015/16 after completion of the detailed reconciliation of Head Rent calculation for 2015/16. The information had been received too late to be included within the outturn position for 2015/16. Revised Head rent Projections for 2016/17 had been estimated at a further shortfall of £245,500.

- Would there be an adjustment to the Tourist Information Centre budget as a result of the income shortfall of £50,300?

The Chief Finance Officer responded that income targets were reviewed annually and the service manager would be monitoring the Tourist Information Centre income.

A Member added that the Tourist Information Centre had a shortfall in income each year and asked the Executive if they thought that they had the right strategy to deal with income from the Centre.

- Were the Executive confident in the budget?

The Finance, Governance and Resources Portfolio Holder confirmed that the Executive was confident in the budget and had confidence in the expertise and skills of the finance staff.

- Members were disappointed that Councillors' small scale community schemes budget was underspent and urged all Councillors to use the money allocated for their Wards.
- Why had the report not included any bad debt provision for NNDR?

The Chief Finance Officer explained that the information had not been received in time to be included in the report before publication.

RESOLVED – That the Revenue Budget Overview and Monitoring Report: April to December 2016 (RD.54/16) be noted.

ROSP.18/17 CAPITAL BUDGET OVERVIEW AND MONITORING REPORT – APRIL TO DECEMBER 2016

The Chief Finance Officer submitted report RD.55/16 providing an overview of the budgetary position of the City Council's capital programme for the period April to December 2016. She outlined for Members the overall budget position of the various Directorates and the financing of the 2016/17 Capital Programme, details of which were set out in the report.

Paragraph 3.3 recorded that an initial review of the 2016/17 capital programme had been undertaken and the Executive had been asked to recommend to Council the re-profiling of £1,164,300 from 2016/17 to 2017/18, further details of which were set out at Appendix A.

The unspent balance remaining of the revised annual budget of £10,803,600 was £6,339,496 as at December 2016.

The Executive had considered the matter at their meeting on 13 February 2017 (EX.18/17 refers) and resolved:

“That the Executive:

- (i) Noted and had commented on the budgetary position and performance aspects of the capital programme for the period April to December 2016;
- (ii) Approved the release of the balance of £72,672.13 from the Conservation Reserve to fund emergency work in relation to the Central Plaza as per OD.144/16;
- (iii) Approved a virement of £47,300 to fund emergency work at the Central Plaza, thus fulfilling the Council's legal obligations, with the funding being provided from underspends within the 2016/17 Capital Programme;
- (iv) Made recommendations to Council to approve re-profiling of £1,164,300 as detailed in paragraph 3.3 and Appendix A from 2016/17 into 2017/18.”

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

- A Member commented that he understood the issues regarding the Central Plaza but asked if there was something more positive that could be done.

The Finance, Governance and Resources Portfolio Holder explained that a lot of work was being undertaken behind the scenes by the Economic Development team to try and reach a satisfactory outcome for the future of the Central Plaza.

- Why was the Disabled Facilities Grant (DFG) budget underspent?

The Chief Finance Officer responded that there was a number of reasons for the underspend including an increase in funding and challenges in respect of Occupational Therapist referrals. The funding mechanism had changed and was now distributed through the Better Care Fund.

The Town Clerk and Chief Executive explained that there had been some early stage discussions between District Councils and Cumbria County Council on how the money could be best used across the whole of Cumbria. Part of the discussions would be to determine how Homelife resources could be used in a better proactive way. At its meeting in January 2017 full Council had agreed the Scheme of Housing Assistance which detailed the move to discretionary DFGs and the relevant categories.

In response to a Members' question the Chief Finance Officer clarified where the additional DFG funding had come from and the Town Clerk and Chief Executive agreed to provide a written response to Members on the contribution to Durranshill Industrial Estate.

RESOLVED – 1) That the Capital Budget Overview and Monitoring Report: April to December 2016 (RD.55/16) be noted.

2) That the Town Clerk and Chief Executive provide a written response regarding the additional contributions to the Durranhill Industrial Estate project.

ROSP.19/17 2016/17 SICKNESS ABSENCE QUARTER 3

The Town Clerk and Chief Executive submitted the Authority's sickness absence levels for the period April 2016 to December 2016 and other sickness absence information (Report CE.02/17).

The Town Clerk and Chief Executive reported that the 2015/16 sickness absence levels had decreased by approximately 30% to 8.6 days lost per Full Time Equivalent (FTE) employee compared to the previous year. The percentage of sickness which was long term also decreased as managers ensured the support for their staff was available and accessible.

The 2016/17 performance was detailed in the report and the table at appendix 1 provided absence levels split by the new Directorates. The information showed that compared to the first three quarters of the previous year, 2016/17 levels had decreased by nearly 13% to 5.4 days lost per FTE employee, there had also been a decrease in long term absences. The new Council structure took effect from 1 October 2016 so it had not been possible to carry out any directorate level analysis.

The Town Clerk and Chief Executive drew Members attention to Section 3 of the report which detailed new information on the time taken to complete Return to Work Interviews and the proportion completed within five working days. This ensured that Interviews were taking place in a timely and meaningful fashion.

Members congratulated the Town Clerk and Chief Executive and officers for the continued improvement in the sickness absence figures.

A Member asked if there was any correlation between sickness absence and the training provided by the authority for staff. The Town Clerk and Chief Executive confirmed that training was provided based on the sickness patterns where applicable.

The Finance, Governance and Resources Portfolio Holder reminded the Panel that some absences were due to personal issues and it was difficult to then provide the necessary training, however, those members of staff were provided with excellent support from the authority.

Members asked for comparative data with other Councils and national performance data to be included in the next report.

RESOLVED – 1) That the 2016/17 Sickness Absence Quarter 3 report (CE.02/17) be welcomed;

2) That future sickness absence update reports include comparative data with other Councils and national performance data.

ROSP.20/17 3RD QUARTER PERFORMANCE REPORT 2016/17

The Policy and Performance Officer presented report PC.03/17 which updated the Panel on the Council's service standards relevant to the Panel and included updates on key actions contained within the new Carlisle Plan.

The Policy and Performance Officer reported that the table at Section 1 of the report illustrated the cumulative year to date figure, a month by month breakdown of performance and, where possible, an actual service standard baseline that had been established either locally or nationally. Only the service standard relevant to the Panel had been included in the Report.

The updates against the actions in the Carlisle Plan followed on from service standard information in Section 2. The actions had been aligned to the Carlisle Plan on a Page (attached as an appendix) and it was proposed that only the actions relevant to the Panel would be reported.

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

- Members asked when the Kingstown and Parkhouse Industrial Estates Business Plans would be available for scrutiny by the Panel.

The Town Clerk and Chief Executive agreed to make arrangements for a report to be included in the Panel's Work Programme.

- Was there any concern that the Kingmoor Park Enterprise Zone would impact on the Kingstown Industrial Estate?

The Town Clerk and Chief Executive responded that the advantages for the Enterprise Zone were designed to reward new businesses to Carlisle rather than the migration of businesses. The overriding consideration was that the advantages of the Enterprise Zone outweighed the disadvantages.

- A Member reminded officers that the Panel had requested a report on the Carlisle Ambassadors and the Town Clerk and Chief Executive confirmed that a report had been scheduled in the Panel's Work Programme.

RESOLVED – That the 3rd Quarter Performance Report 2016/17 (PC.03/17) be welcomed.

ROSP.21/17 PERFORMANCE MONITORING OPTIONS

The Policy and Performance Officer submitted report PC.01/17 which set out the options for the future presentation of performance information to the Panel.

The Policy and Performance Officer reported that the Carlisle Plan actions had been completed and a suggested mapping of the 43 key actions and projects to the Panels.

He explained that work had been progressing on a new approach to management information. The success of the Smarter Service Delivery 2 Board (SSD2) meant that customer data was automatically linked through the Microsoft PowerBI tool. In addition the data for the five service standards had migrated across to PowerBI. This enabled an exception approach to performance reporting based on agreed thresholds and triggers. This approach would grow with the shift of services into the Salesforce Customer Relationship Management System; additional data connectors and data migration and would build a bigger, more complete picture of demand and fulfilment across all the Council's services. It would also remove the two tier

system of service standards and management information by introducing a consistent set of measures to assess a wider range of customer calls for service.

Best practice in Overview and Scrutiny (Centre for Public Scrutiny) advocated the following:

- Prioritisation in what comes to Scrutiny (quality rather than quantity)
- Greater involvement in the Council's biggest challenges and priorities
- Greater scrutiny of critical issues
- Be more outcome focussed

Each Panel would be asked to consider a workshop, open to all Scrutiny Members, to look at the detail in the proposals presented below.

It was proposed that a simpler, clearer approach was taken based on the following principles:

1. A clear programme of work was presented to the Panels for consideration so that they could select some items for the Panels' work programmes, to include:
 - a. Carlisle Plan actions
 - b. A schedule of policies and strategies to be introduced or reviewed
 - c. Budgetary Framework
2. Overview & Scrutiny focuses on strategy and policy. Any operational issues were dealt with outside of the meeting by contacting service managers or directors directly.
3. Overview & Scrutiny consider service standards only by exception.

This approach would reduce the quantity of reports being scrutinised and shift the overview to the performance of policies and strategies. There would still be an overview role to fulfil in service standard indicators but only through exception. An exception report would include the interventions made to bring the performance back into line with the accepted standard.

It was also proposed that to improve performance content of reports presented to Overview and Scrutiny, report authors would be sent a series of performance questions and key lines of enquiry as soon as the item was added to the work programme. The performance questions would be drafted by Policy and Performance Officers and reviewed by the Scrutiny Officer and relevant Chairman. The questions would be sent to the Portfolio Holder, Senior Manager and lead officer. The proposed approach would ensure that each report contained a clear section on how the item under scrutiny was performing, the context for the performance and the role the Council played in generating the outputs and outcomes.

Members discussed the options in some detail. They felt that a workshop for Members and Substitute Members of the Resources Overview and Scrutiny Panel only would be most beneficial for the Panel. The Panel wanted to use the opportunity to focus on their work programme for the year and to identify the necessary performance requirements.

RESOLVED – 1) That the Performance Monitoring Options report (PC.07/17) be welcomed;

2) That a workshop, open to all Members and Substitute Members of the Resources Overview and Scrutiny Panel, be arranged to define the information and performance needs of the annual work programme.

(The meeting ended at 11.40am)



Grant Thornton
 An instinct for growth™

Alison Taylor
 Chief Finance Officer
 Carlisle City Council
 Civic Centre
 Rickergate
 Carlisle
 CA3 8QG

Grant Thornton UK LLP
 4 Hardman Square
 Spinningfields
 Manchester
 M3 3EB

T+44(0161) 234 6394

9 December 2016

Dear Alison

Certification work for Carlisle City Council for year ended 31 March 2016

We are required to certify the Housing Benefit subsidy claim submitted by Carlisle City Council ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

The Local Audit and Accountability Act 2014 gave the Secretary of State power to transfer Audit Commission responsibilities to other bodies. Public Sector Audit Appointments (PSAA) have taken on the transitional responsibilities for HB COUNT issued by the Audit Commission in February 2015.

We have certified the Housing Benefit subsidy claim for the financial year 2015/16 relating to expenditure of £29.105 million. Further details of the claims certified are set out in Appendix A.

We are satisfied that overall the Council has appropriate arrangements to compile complete, accurate and timely claims for audit certification, although there are some issues arising from our certification work which we wish to highlight for your attention.

Certifying the 2015/16 Housing Benefit Subsidy claim involved testing an initial sample of 20 cases from the headline cell for non HRA (cell 011) and 20 cases for Rent Allowance (cell 094), along with 5 modified scheme cases (cell 214). Our initial testing identified the following errors:

- One Rent Allowance case where the incorrect bedroom rate had been applied, resulting in an underpayment of benefit;
- One Rent Allowance case where the incorrect income had been used in the assessment, resulting in an underpayment of benefit;
- One Rent Allowance case where the Council incorrectly classified a LA error overpayment as claimant error, this had no impact upon the award of benefit; and
- One Rent Allowance case where the payment frequency was incorrect and the claim was paid to an earlier date than due, resulting in an underpayment of benefit.

Where errors are identified in the initial sample, another sample of up to 40 cases is tested for the error identified, unless the error could only ever result in an underpayment. We undertook 2 sets of additional testing covering :

- Rent Allowance income; and
- Rent Allowance overpayment classifications.

Two further errors were noted in the Rent Allowance income testing, with an underpayment of £0.10 and an overpayment of £0.08. There were three errors in the Rent Allowance overpayment classification testing totalling £33.87.

In addition to our initial and additional testing, we are required to consider what the Council has done to address the issues raised in our 2014/15 certification. The testing required to be carried out in 2015/16 as a result of these covered 4 sets of testing of 40 cases where the issues still existed:

- Rent Allowance incorrect rental uplift applied;
- Rent Allowance case incorrectly opened as a Non HRA case;
- Non HRA rent rebate where Employment Support Allowance (ESA) (C) was incorrectly input as ESA (IR); and
- Non HRA rent rebate where the incorrect prior year rental was applied.

The only issue arising from the testing was one overpayment for £17.65 identified in the Rent Allowance rental uplift testing.

The claim submitted for audit did not require amendment. However, the claim was subject to a qualification letter for the errors identified in initial and 40+ testing. A qualification letter was required when further testing cannot determine an amendment to the claim form as we cannot fully quantify the error in the population to conclude that the cell in question is fairly stated.

The indicative fee for 2015/16 for the Council is based on the final 2013/14 certification fees, reflecting the amount of work required by the auditor to certify the Housing Benefit subsidy claim that year. The indicative scale fee set by the Audit Commission for the Council for 2015/16 is £11,352, which represents a 25% reduction on the 2013/14 fee applied to all fees for 2015/16.

The level of work required in 2015/16 was higher than the level of work required in 2013/14, due to the additional number of 40+ cases to test. The proposed fee variation for the additional work is £5,500, which has been agreed with management. The fee is not considered as final until it is confirmed by the PSAA.

Yours sincerely

For Grant Thornton UK LLP

Appendix A - Details of claims and returns certified for 2015/16

Claim or return	Value	Amended?	Amendment (£)	Qualified?	Comments
Housing benefits subsidy claim	29,104,820	no	0	Yes	

Appendix B: Fees for 2015/16 certification work

Claim or return	2013/14 fee (£)	2015/16 indicative fee (£)	2015/16 actual fee (£)	Variance (£)	Explanation for variances
Housing benefits subsidy claim (BEN01)	15,136	11,352	16,852	0	Subject to PSAA approval of the £5,500 additional fee.
Total	15,136	11,352	16,852	0	



The Audit Plan for Carlisle City Council

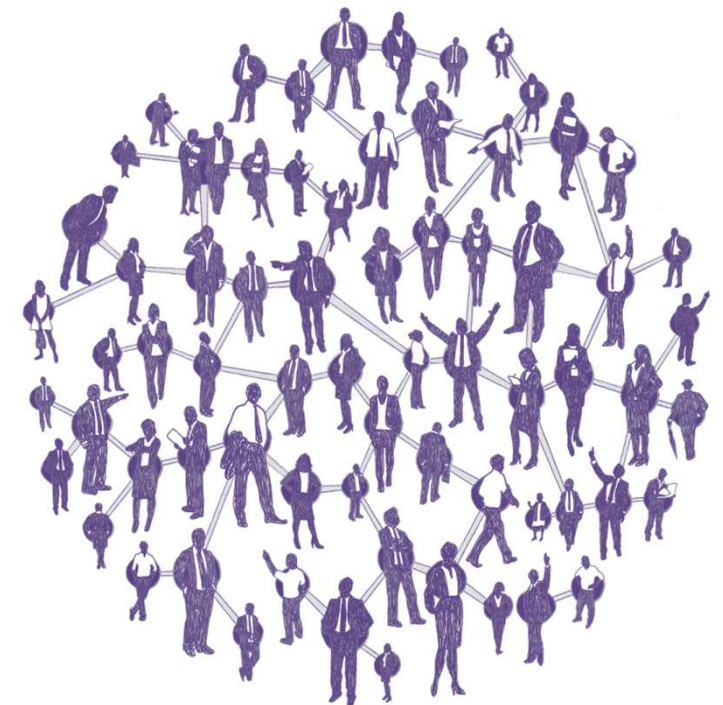
Year ending 31 March 2017

February 2017

Gareth Kelly
Engagement Lead
T 0141 223 0891
M 0788 045 6154
E gareth.kelly@uk.gt.com

Angela Pieri
Engagement Manager
T 0141 223 0887
M 0755 433 8555
E angela.l.pieri@uk.gt.com

Jamie Wright
In-Charge Auditor
T 0141 223 0603
E jamie.sb.wright@uk.gt.com



Carlisle City Council
Civic Centre
Carlisle
Cumbria
CA3 8QG

16 March 2017

Dear Members of the Audit Committee

Audit Plan for Carlisle City Council for the year ending 31 March 2017

This Audit Plan sets out for the benefit of those charged with governance, (which in the case of Carlisle City Council is the Audit Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015. Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements; and
- satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements which give a true and fair view.

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change. In particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We look forward to working with you during the course of the audit.

Yours sincerely

Gareth Kelly

Engagement Lead

Chartered Accountants

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Understanding your business and key developments

Key challenges

Autumn Statement 2016

The Chancellor detailed plans in the Autumn Statement to increase funding for Housing and Infrastructure, and to further extend devolved powers to Local Authorities.

Financial Health

The Council continues to face a challenging environment in the short to medium term with the Medium Term Financial Plan (MTFP) 2017/18 to 2021/22 showing a savings gap of £2.274m for the 2 years of 2017/18 and 2018/19 (nil gap for 2019/20 to 2021/22), which has been fully identified. The Council has reviewed how it works and has a well established Transformation Programme in place.

Asset reviews, reductions in discretionary activity, service reviews and re-organisations are on-going, including workforce rationalisation.

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

Financial reporting changes

CIPFA Code of Practice 2016/17 (the Code)

Changes to the Code in 2016/17 includes the 'Telling the Story' project, to streamline the financial statements to be more in line with internal organisational reporting and improve accessibility to the reader of the financial statements.

The changes affect the presentation of the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statements (MIRS), segmental reporting disclosures and a new Expenditure and Funding Analysis note has been introduced. The Code requires these amendments to be reflected in the 2015/16 comparatives.

Earlier closedown

The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 July by the 2017/2018 financial year.

The Council is planning the completion of the audit process by 31 July 2017, a year earlier than the statutory deadline changes.

For 2016/17, the audit is scheduled for June and July 2017. It is anticipated that the Audit Findings Report will be presented to the Audit Committee at the end of July 2017.

Our response

- We aim to complete all our substantive audit work of your financial statements by mid July 2017.
- As part of our opinion on your financial statements, we will consider whether your financial statements accurately reflect the financial reporting changes in the 2016/17 Code.
- We will keep you informed of changes to the financial reporting requirements for 2016/17 through on-going discussions and invitations to our technical update workshops.

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature, for example, when greater precision is required (e.g. senior manager salaries and allowances).

We determine planning materiality (materiality for the financial statements as a whole determined at the planning stage of the audit) in order to estimate the tolerable level of misstatement in the financial statements, assist in establishing the scope of our audit engagement and audit tests, calculate sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements.

We have determined planning materiality based upon professional judgement in the context of our knowledge of the Council. In line with previous years, we have calculated financial statements materiality based on a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £1,141,000, being 1.75% of gross revenue expenditure (2015/16 was £1,161,000 and 1.75%). Our assessment of materiality is kept under review throughout the audit process and we will advise you if we revise this during the audit.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £57,000.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'. We have identified the following items where lower materiality levels are appropriate:

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings and exit packages in the notes to the financial statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20,000 for senior officers' remuneration £50,000 for exit package costs (full cost including actuarial strain)
Disclosure of Related Party Transactions	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20,000 Individual misstatements will be assessed for materiality to either party involved in the transaction.

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)

Significant risks identified

An audit is focused on risks. Significant risks are defined by ISAs (UK and Ireland) as risks that, in the judgment of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement. There are two presumed significant risks for fraud in revenue recognition and management override of controls, which are applicable to all audits under auditing standards. We set out below the work we plan to address these risks.

Significant risk	Description	Audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA (UK and Ireland) 240 there is a presumed risk that revenue streams may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Carlisle City Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none">• there is little incentive to manipulate revenue recognition;• opportunities to manipulate revenue recognition are very limited; and• the culture and ethical frameworks of local authorities, including Carlisle City Council, mean that all forms of fraud are seen as unacceptable. <p>Therefore, we do not consider this to be a significant risk for Carlisle City Council.</p>
Management over-ride of controls	<p>Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p>	<p>Work planned:</p> <ul style="list-style-type: none">• Review of accounting estimates, judgments and decisions made by management;• Review of journal entry process and selection of unusual journal entries for testing back to supporting documentation; and• Review of unusual significant transactions.

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK and Ireland) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK and Ireland) 550)

Significant risks identified (continued)

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we plan to address these risks.

Significant risk	Description	Audit procedures
Valuation of pension fund net liability	<p>The Council's pension fund asset and liability as reflected in the balance sheet represents a significant estimate in the financial statements.</p> <p>Our planned work is to address the risk that the valuation of the pension fund net liability is not materially misstated.</p>	<p>Work planned:</p> <ul style="list-style-type: none"> Review the controls put in place by management to ensure that the pension fund liability is not materially misstated and walkthrough test these controls; Review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out; Undertake procedures to confirm the reasonableness of the actuarial assumptions made; and Review the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.
Valuation of property, plant and equipment (PPE) and investment property	<p>Revaluation measurements not materially correct.</p> <p>Our planned work is to address the risk that the Council's property, plant and equipment and investment property portfolio valuation is not materially misstated.</p> <p>The Council revalues its assets annually. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from current value. This represents a significant estimate by management in the financial statements.</p>	<p>Work planned:</p> <ul style="list-style-type: none"> Review of management's processes and assumptions for the calculation of the estimate; Review of the competence, expertise and objectivity of any management experts used; For any valuation undertaken, we will: <ul style="list-style-type: none"> review the instructions issued to valuation experts and the scope of their work; discuss with the valuer about the basis on which the valuation is carried out and challenge the key assumptions; review and challenge the information used by the valuer to ensure it is robust and consistent with our understanding; undertake testing revaluations made during the year to ensure they are input correctly into the Council's asset register; and evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.

Other risks identified

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

Reasonably possible risks	Description of risk	Audit procedures
Operating expenses - Completeness	<p>Year-end creditors and accruals are understated or not recorded in the correct period.</p> <p>Our planned work is to address the risk that not all material expenditure transactions relating to the 2016/17 accounting period have been accounted for, leading to the expenditure figures in the Comprehensive Income and Expenditure Statement to be understated.</p>	<p>Work completed to date:</p> <ul style="list-style-type: none"> Documentation of the system and identification of controls and walkthrough test of operating expenses. <p>Further work planned:</p> <ul style="list-style-type: none"> Review of accounting estimates, judgments and the accruals accounting process including the processes for accruing goods received not invoiced; Post year end payments testing to confirm the completeness of accruals; and Testing of expenditure and accruals to goods receipt and subsequent invoice and payment.
Employee remuneration - Completeness	<p>Employee remuneration accruals understated (Remuneration expenses not correct).</p> <p>Our planned work is to address the risk that not all material payroll transactions relating to the 2016/17 accounting period, which have been recorded in the payroll subsystem, have been captured in the general ledger. This would lead to an understatement of the employee remuneration costs in the Comprehensive Income and Expenditure Statement.</p>	<p>Work completed to date:</p> <ul style="list-style-type: none"> Documentation of the system and identification of controls and walkthrough test of payroll system. <p>Further work planned:</p> <ul style="list-style-type: none"> Reconciliation of the payroll system figures to the financial ledger; Substantive testing of year end payroll accruals; and Trend analysis of payroll costs over the period, and year-on-year analysis.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK and Ireland) 315)

Other risks identified (continued)

Other risks	Description of risk	Audit procedures
<p>Changes to the presentation of local authority financial statements</p>	<p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>Work planned:</p> <ul style="list-style-type: none"> • We will document and evaluate the process for the recording the required financial reporting changes to the 2016/17 financial statements; • We will review the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure; • We will review the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS); • We will test the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES; • We will test the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger; • We will test the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements; and • We will review the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.

Other risks identified (continued)

Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK and Ireland) 570). We will review the management's assessment of the going concern assumption and the disclosures in the financial statements.

Other material balances and transactions

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

- Heritage assets
- Cash and cash equivalents
- Trade and other receivables
- Borrowings and other liabilities (long and short term)
- Provisions
- Useable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- Officers' remuneration note
- Leases note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Collection Fund and associated notes
- Funds held on trust note
- Contingent Liabilities
- Housing Benefit Expenditure and Subsidy.

Value for Money

Background

The Code requires us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The National Audit Office (NAO) issued its guidance for auditors on value for money work for 2016/17 in November 2016. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

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

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

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none">• Acting in the public interest, through demonstrating and applying the principles and values of sound governance;• Understanding and using appropriate cost and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management;• Reliable and timely financial reporting that supports the delivery of strategic priorities; and• Managing risks effectively and maintaining a sound system of internal control.
Sustainable resource deployment	<ul style="list-style-type: none">• Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions;• Managing and utilising assets effectively to support the delivery of strategic priorities; and• Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	<ul style="list-style-type: none">• Working with third parties effectively to deliver strategic priorities;• Commissioning services effectively to support the delivery of strategic priorities; and• Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for Money (continued)

Risk assessment

We have carried out an initial risk assessment based on the NAO's auditor's guidance note (AGN03). In our initial risk assessment, we considered:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements;
- the findings of other inspectorates and review agencies;
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information; and
- any other evidence which we consider necessary to conclude on your arrangements.

We have identified a significant risk which we are required to communicate to you. This is set out overleaf.

Reporting

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and in the Annual Audit Letter.

We will include our conclusion in our auditor's report on your financial statements which we will aim to give on after the Audit Committee at the end of July 2017 (deadline is 30 September 2017).

Value for money (continued)

We set out below the significant risk we have identified as a result of our initial risk assessment and the work we propose to address these risks.

Significant risk	Link to sub-criteria	Work proposed to address
<p>Significant service transformation projects and the Medium Term Financial Plan (MTFP)</p> <p>The Council's MTFP is predicated on delivering changes to the way in which services are delivered. The Council has identified proposals for reducing spending and increasing efficiency. The programme included a number of key projects, including internally reshaping the Council.</p> <p>The Council continues to face a challenging environment in the short to medium term with MTFP 2017/18 to 2021/22 showing a savings gap of £2.274 million, all of which has been identified. The Council has reviewed how it works and has a well established Transformation Programme in place.</p> <p>There are considerable uncertainties over various revenue streams in the next few years. As a result the Council has to apply a number of estimates and key judgements to compile the MTFP.</p>	<p>This links to the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.</p>	<p>We will review the arrangements the Council has in place to compile the MTFP. This includes a review of how the Council is identifying, managing and monitoring financial information in order to regularly update the MTFP including reporting outcomes to Executive and Full Council.</p>

Other audit responsibilities

In addition to our responsibilities under the Code of Practice in relation to your financial statements and arrangements for economy, efficiency and effectiveness we have a number of other audit responsibilities, as follows:

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

Results of interim audit work

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

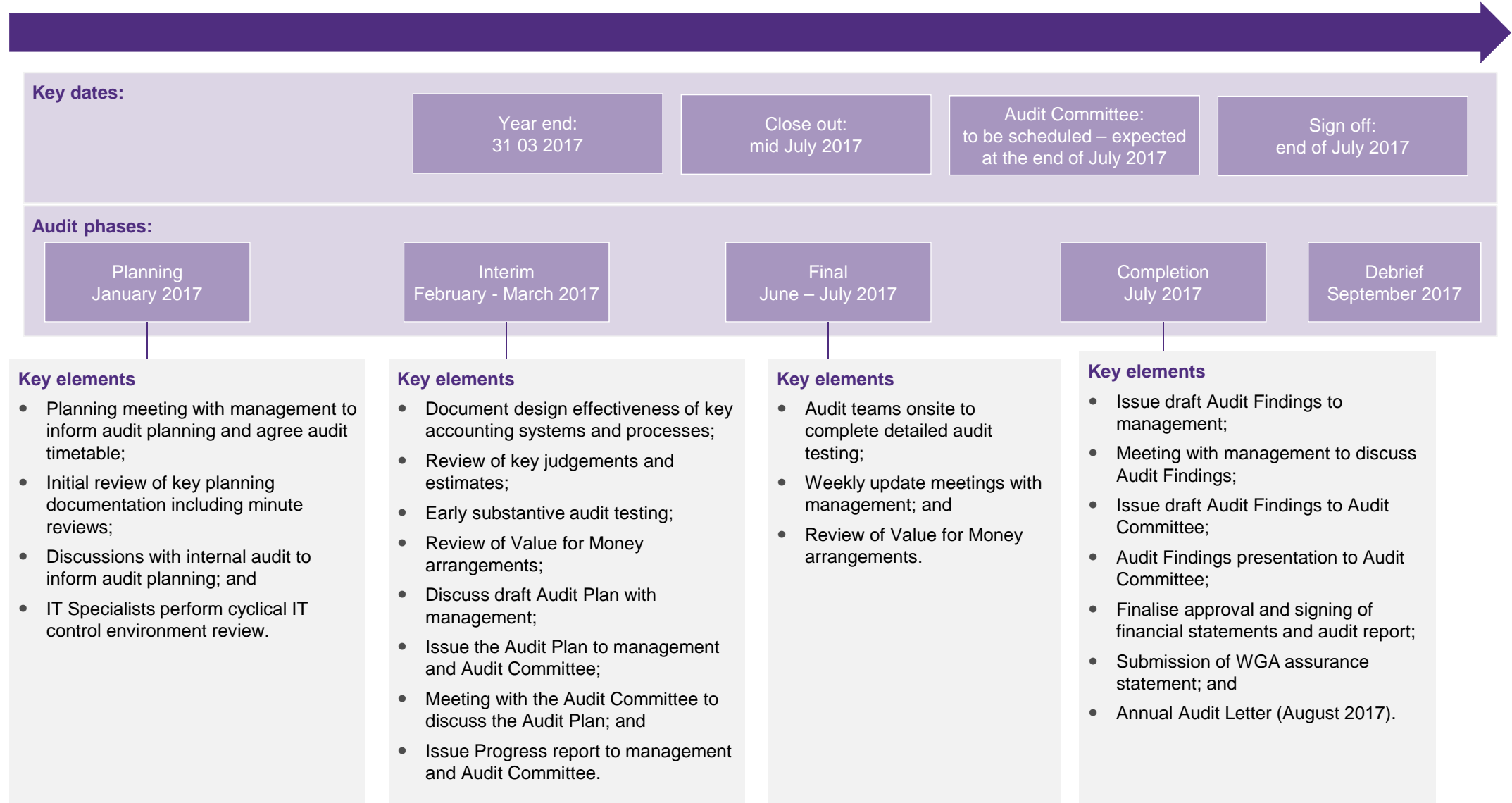
	Work performed	Conclusion
Internal audit	<p>We have completed a high level review of Internal Audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have also reviewed Internal Audit's work on the Council's key financial systems and other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

Results of interim audit work (continued)

	Work performed	Conclusion
Walkthrough testing	<p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements. The walkthroughs carried out to date are on the following systems:</p> <ul style="list-style-type: none"> • Operating expenditure; • Employee remuneration; and • Housing benefits expenditure. <p>We will also carry out walkthrough tests on the systems used to capture PPE & Investment property valuations and the valuation of the net pension liability. As these are year-end processes, these walkthroughs will be carried out during the final accounts audit period.</p>	<p>Our work to date has not identified any weaknesses which impact on our audit approach.</p> <p>Of the systems tested, internal controls have been implemented by the Council in accordance with our documented understanding.</p> <p>We will complete our testing of the remaining systems during the final accounts period. An updated assessment will be reported in the Audit Findings Report.</p>
Review of information technology controls	<p>Our information systems auditor performed a high level review of the general IT control environment, as part of the overall review of the internal controls system.</p>	<p>Our work identified eight areas for improvement. None of the issues identified have been assessed as significant and therefore do not impact upon our audit approach. For information, the full details are outlined in the February 2017 external audit update report which is also presented to this Committee.</p> <p>All of the recommendations identified have been responded to by management, with positive action agreed where relevant.</p>
Early substantive testing	<p>We anticipate undertaking early substantive testing during the interim visit, covering the ten month period of April 2016 to January 2017, in the following areas:</p> <ul style="list-style-type: none"> • Operating expenditure; • Employee remuneration; • Exit packages; and • Other income. 	<p>We will complete our early testing at the interim stage, and any remaining testing will be completed during the final accounts period. An updated assessment will be reported in the Audit Findings Report.</p>

The audit cycle

The audit timeline



Audit Fees

Fees

	£
Council audit	53,290
Grant Certification	14,093
Total audit fees (excluding VAT)	67,383

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list;
- The scope of the audit, and the Council and its activities, have not changed significantly;
- The Council will make available management and accounting staff to help us locate information and to provide explanations; and
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited; and
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Fees for other services

Fees for other services are nil at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

What is included within our fees

- A reliable and risk-focused audit appropriate for your business;
- Invitations to events hosted by Grant Thornton in your sector, as well as the wider finance community;
- Regular sector updates;
- Ad-hoc telephone calls and queries;
- Technical briefings and updates;
- A review of accounting policies for appropriateness and consistency; and
- Regular Audit Committee Progress Reports.

Independence

Ethical standards and International Standards on Auditing (ISA) 260 require us to give you full and fair disclosure of matters relating to our independence. In this context, we disclose the following to you:

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

We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standard on Auditing (UK and Ireland) (ISA) 260, as well as other ISAs (UK and Ireland) prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓



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External audit progress and update report for Carlisle City Council Year ending 31 March 2017

February 2017

Gareth Kelly

Engagement Lead

T 0141 223 0891

E gareth.kelly@uk.gt.com

Angela Pieri

Engagement Manager

T 0141 223 0887

E angela.l.pieri@uk.gt.com

Jamie Wright

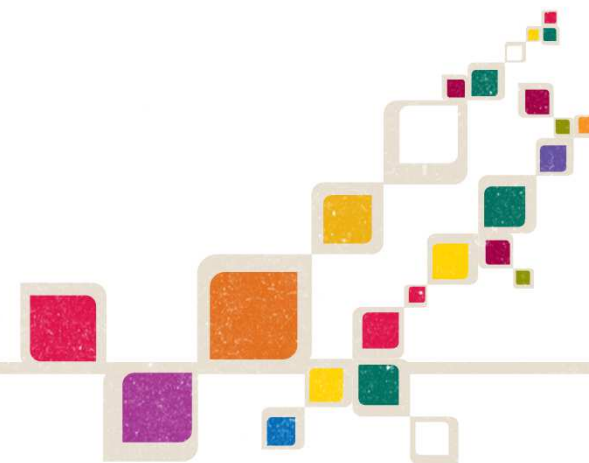
Engagement In Charge Auditor

T 0141 223 0603

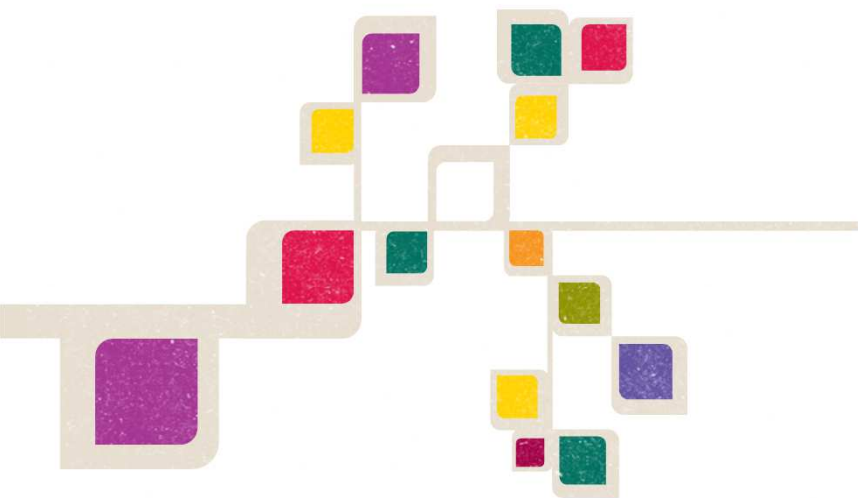
E jamie.sb.wright@uk.gt.com



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



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Introduction

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

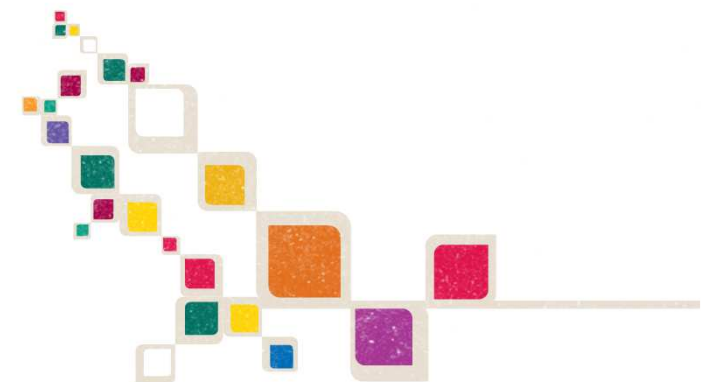
Members can find useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector.

In our last external audit update report we provided you with hard copies and summary information on the publications listed below.

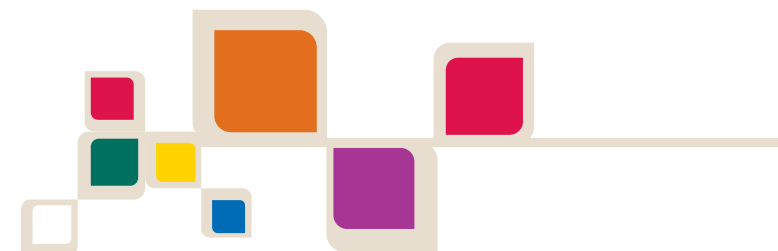
- Advancing Closure: Transforming the financial reporting of local authority accounts;
<http://www.grantthornton.co.uk/en/insights/advancing-closure-the-benefits-to-local-authorities/>
- Culture of Place: summary of round table discussions and a collection of short videos:
<http://www.grantthornton.co.uk/en/insights/culture-of-place/>

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

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

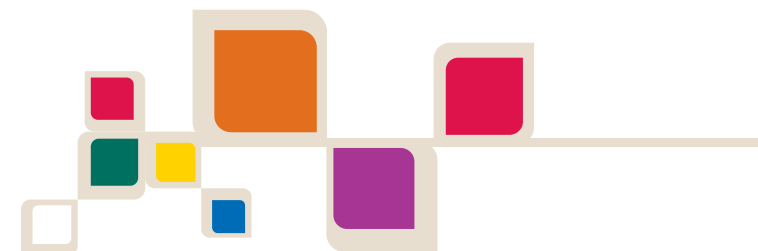


Progress at February 2017



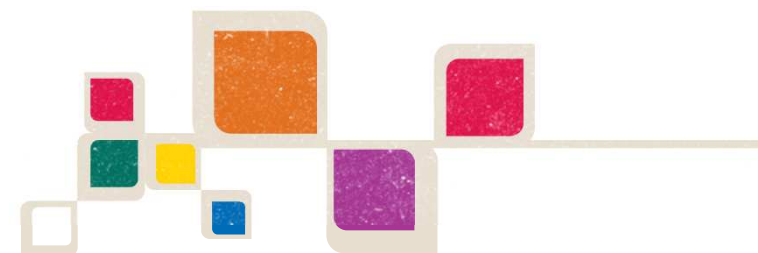
2016/17 work	Planned Date	Complete?	Comments
Fee Letter We are required to issue a 'Planned fee letter for 2016/17' by the end of April 2016.	April 2016	Yes	We issued the fee letter for 2016/17 in April 2016, with no change to the scale fee proposed. This was presented to the Audit Committee on 19 April 2016. There is no change in the scope of the areas of audit from 2015/16.
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2016/17 financial statements.	March 2017	Yes	The Audit Plan is included as an agenda item at this Audit Committee on 16 March 2017.
Interim accounts audit Our interim fieldwork visit plan included: <ul style="list-style-type: none"> • updated review of the Council's control environment; • updated understanding of financial systems; • review of Internal Audit reports on core financial systems; • early work on emerging accounting issues; • early substantive testing; and • Value for Money conclusion risk assessment. 	February 2017	On-going	<p>Our interim work is on-going and is expected to be completed by the end of February 2017. We have undertaken early substantive work where it is relevant and efficient to do so.</p> <p>To date, we can confirm that there are no matters arising from our work that we need to bring to the attention of the Audit Committee.</p>

Progress at February 2017



2016/17 work	Planned Date	Complete?	Comments
Review of Information Technology controls Our information systems specialist performed a high level review of the general IT control environment, as part of the overall review of the internal controls system.	December 2016	Yes	<p>From the cyclical review of IT controls we identified eight areas for improvement. None of the issues identified have been assessed as significant, and therefore do not impact upon our audit approach. This update report provides a high level overview of findings and the action agreed, as summarised below:</p> <ol style="list-style-type: none"> 1. No testing of the Council's disaster recover plan has been undertaken during 2016/17. <i>An annual test will be implemented by October 2017.</i> 2. New staff members do not receive training in information security. <i>To be followed up with the training unit by December 2017.</i> 3. Two users not involved in day-to-day administration of the Civica system have full access to this system. <i>Access to the Civica system will be reviewed by June 2017.</i> 4. No process is in place to regularly review inactive user accounts on the network. <i>A review will be implemented by October 2017.</i> 5. A user account from a supplier had unnecessary system administrator access to the network where the supplier was no longer used by the Council. <i>Domain administrative privileges will be reviewed by October 2017.</i> 6. User accounts and associated permissions within 'Active Directory' are not being formally reviewed for appropriateness. <i>Procedures will be implemented to review user accounts and permissions by October 2017.</i> 7. Logs of information security activity within 'Active Directory' are not being formally, proactively, and routinely reviewed. <i>Products to automatically monitor logs are being considered by management by December 2017.</i> 8. Documented policies and procedures have not been formally established addressing change management processes and related control requirements within Civica Authority Financials, Trent, and Academy. <i>This had already been identified as an issue by the D&IS management team. A process to implement change control within the service will be developed and implemented. Timescale to be determined.</i>

Progress at February 2017



2016/17 work	Planned Date	Complete?	Comments
Final accounts audit Including: <ul style="list-style-type: none"> • audit of the 2016/17 financial statements; • proposed opinion on the Council's accounts; • proposed Value for Money conclusion; and • review of the Council's disclosures in the consolidated accounts against the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. 	June to July 2017	Not yet started	<p>We will focus on completing the final accounts work during this period.</p> <p>The audit deadline for 2016/17 is 30 September 2017 and the results will be reported in the Audit Findings Report. The Council are expecting to adopt early closedown of the accounts and an early sign off of their accounts, with the Audit Findings Report scheduled to be presented to the Audit Committee at the end of July 2017. The Authority is to be commended in trialling the early closedown and audit of the accounts by 31 July 2017, a year ahead of the mandated change in deadlines.</p>
Value for Money (VfM) conclusion The scope of our work is unchanged to 2015/16 and is set out in the final guidance issued by the National Audit Office in November 2016. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources". The guidance confirmed the overall criterion as; "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people". The three sub criteria for assessment to be able to give a conclusion overall are: <ul style="list-style-type: none"> • Informed decision making; • Sustainable resource deployment; and • Working with partners and other third parties. 	January to July 2017	On-going	<p>The guidance and supporting information includes:</p> <ul style="list-style-type: none"> • the legal and professional framework; • definitions of what constitute 'proper arrangements'; • guidance on the approach to be followed by auditors in relation to risk assessment, with auditors only required to carry out detailed work in areas where significant risks have been identified; • evaluation criteria to be applied; • reporting requirements; and • local government specific guidance. <p>The guidance is available at https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/</p> <p>The results of the initial risk assessment are detailed in the Audit Plan. Our work will be reported in the Audit Findings Report to the Audit Committee at the end of July 2017.</p>

Grant Thornton



Off-payroll working in the public sector

The Chancellor's Autumn Statement 2016 speech delivered a number of changes that will impact the UK business environment and raise considerations for you as an employer.

In particular, the Chancellor announced that the measures that were proposed in Budget 2016 that could affect services supplied through personal service companies (PSCs) to the public sector will be implemented.

At present, the so-called IR35 rules require the worker to decide whether PAYE and NIC are due on the payments made by a PSC following an engagement with a public sector body. The onus will be moved to the payer from April 2017. This might be the public sector body itself, but is more likely to be an intermediary, or, if there is a supply chain, to the party closest to the PSC.

The public sector body (or the party closest to the PSC) will need to account for the tax and NIC and include details in their RTI submission.

The existing IR35 rules will continue outside of public sector engagements.

HMRC Digital Tool – will aid with determining whether or not the intermediary rules apply to ensure of “consistency, certainty and simplicity”.

When the proposals were originally made, the public sector was defined as those bodies that are subject to the Freedom of Information rules. It is not known at present whether this will be the final definition. Establishing what bodies are caught is likely to be difficult, however the public sector is defined.

A further change will be that the 5% tax free allowance that is given to PSCs will be removed for those providing services to the public sector.

Impact

- Increased costs.
- Responsibility moved to the engager.
- Increased risks for the engager.
- Consider current arrangements in place.

Areas / risks to consider

- Interim and / or temporary staff engaged through an intermediary or PSC;
- Where using agencies ensure they're UK based and operating PAYE;
- Update on-boarding / procurement systems, processes and controls;
- Additional take on checks and staff training / communications;
- Review of existing PSC contractor population before April 2017; and
- Consider moving long term engagements onto payroll.

Salary Sacrifice Arrangements-Autumn Statement

The Chancellor's Autumn Statement 2016 speech delivered a number of changes that will impact the UK business environment and raise considerations for you as an employer.

In particular, the proposals from earlier this year to limit the tax and NIC advantages from salary sacrifice arrangements in conjunction with benefits will be implemented from April 2017.

Although we await the details, it appears that there is a partial concession to calls made by Grant Thornton UK and others to exempt the provision of cars from the new rules (to protect the car industry). Therefore, the changes will apply to all benefits other than pensions (including advice), childcare, Cycle to Work schemes and ultra-low emission cars.

Arrangements in place before April 2017 for cars, accommodation and school fees will be protected until April 2021, with others being protected until April 2018.

These changes will be implemented from April 2017.

As you can see, there is a limited opportunity to continue with salary sacrifice arrangements and a need also to consider the choice between keeping such arrangements in place – which may still be beneficial – or withdrawing from them.

What should you be thinking about?

- Review the benefits you offer - particularly if you have a flex renewal coming up;
- Consider your overall Reward and Benefit strategy; and
- Consider your Employee communications.

Technical Matters



Telling the story – Changes in 2016/17 CIPFA Code

CIPFA has been working on the 'Telling the Story' project, which aims to streamline the financial statements and improve accessibility to the user. This has resulted in changes to CIPFA's 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

The main changes affect the presentation of the Comprehensive Income and Expenditure Statement ('CIES'), the Movement in Reserves Statement ('MIRS') and segmental reporting disclosures. A new Expenditure and Funding Analysis has been introduced.

The key changes are:

- the cost of services in the CIES is to be reported on basis of the local authority's organisational structure rather than the Service Reporting Code of Practice (SERCOP) headings;
- an 'Expenditure & Funding Analysis' note to the financial statements provides a reconciliation between the way local authorities are funded and the accounting measures of financial performance in the CIES;
- the changes will remove some of the complexities of the current segmental note; and
- other changes to streamline the current MIRS providing options to report Total Comprehensive Income and Expenditure (previously shown as Surplus and Deficit on the Provision of Services and Other Comprehensive Income and Expenditure lines) and removal of earmarked reserves columns.

Other amendments have been made to the Code:

- other amendments and clarifications to reflect changes in the accounting standards.

Delivering Good Governance

In April, CIPFA and SOLACE published 'Delivering Good Governance in Local Government: Framework (2016)' and this applies to annual governance statements prepared for the 2016/17 financial year.

The key focus of the framework is on sustainability – economic, social and environmental – and the need to focus on the longer term and the impact actions may have on future generations.

Local authorities should be:

- reviewing existing governance arrangements against the principles set out in the Framework;
- developing and maintaining an up-to-date local code of governance, including arrangements for ensuring on-going effectiveness; and
- reporting publicly on compliance with their own code on an annual basis and on how they have monitored the effectiveness of their governance arrangements in the year and on planned changes.

The framework applies to all parts of local government and its partnerships. It should be applied using the spirit and ethos of the framework rather than just seen as a set of rules and procedures.

Sector issues and developments



Local Government Association

Below is a selection of reports issued recently which may be of interest to audit committee members. These are available on the website:

<http://www.local.gov.uk/publications>



Provisional LG Finance Settlement for 2017/18

12 January 2017

The LGA has published its responses to the DCLG consultation on proposals for the local government finance settlement for 2017 to 2018 and for the approach to future local government finance settlements.

<http://www.local.gov.uk/documents/10180/8150261/Local+Government+Finance+Settlement+1718+LGA+response.pdf/dd8d32e1-ec9f-4314-8121-7aae2195f89f>



A councillor's workbook on neighbourhood and community engagement

11 January 2017

Neighbourhood and community engagement has a rightful place as one of the key processes involved in planning and decision making. As such, it should not be viewed as an additional task, but as a core part of the business.



Building our homes, communities and future: The LGA housing commission final report

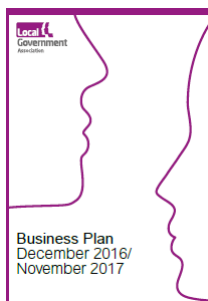
22 December 2016

The Local Government Association (LGA) Housing Commission was established to help councils deliver their ambition for places. It has been supported by a panel of advisers and has engaged with over 100 partners; hearing from councils, developers, charities, health partners, and many others. All partners agree that there is no silver bullet, and all emphasise the pivotal role of councils in helping provide strong leadership, collaborative working, and longer-term certainty for places and the people that live there.

Local Government Association

Below is a selection of reports issued recently which may be of interest to audit committee members. These are available on the LGA website:

<http://www.local.gov.uk/publications>



Business Plan December 2016/November 2017

30 December 2016

Britain's exit from the EU means that we are reshaping the way our country is run. Our vision is one of a rejuvenated local democracy, where power from Westminster and from the EU is significantly devolved to local level and citizens feel they have a meaningful vote and real reason to participate in civic life and their communities.



Stronger together: shared management in local government

29 November 2016

Around 45 councils across England share a chief executive and senior management team in about 20 different partnerships. Most also share at least some services. These councils have already delivered savings of at least £60 million through greater efficiencies and the other benefits of collaboration, with more savings planned.



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Audit Committee

Agenda
Item:

A.5

Meeting Date: 16 March 2017
Portfolio: Finance, Governance and Resources
Key Decision: No
Within Policy and Budget Framework: Yes
Public / Private: Public

Title: **AUDIT COMMITTEE'S ANNUAL REPORT**
Report of: Chair of Audit Committee.
Report Number: RD59/16

Purpose / Summary:

This report provides a summary of the work undertaken by the Audit Committee during 2016/17.

Recommendations:

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

Tracking

Executive:	Not applicable
Overview and Scrutiny:	Not applicable
Council:	25th April 2017

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

1 BACKGROUND

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

Conservative

Mallinson E

Shepherd

Higgs

Bowman S (sub)

Christian (sub)

Earp (sub)

Labour

Patrick (Chair)

Bowditch (Vice Chair)

Riddle

Franklin

Alcroft (sub)

Williams (sub)

Wilson (sub)

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

19th April 2016

7th July 2016

27th September 2016

22nd December 2016

2 AUDIT COMMITTEE'S PROGRAMME OF WORK.

- 2.1 At the commencement of the year, the Committee agreed a Programme of work for the forthcoming year that outlined the areas to be considered at each meeting.

- 2.2 The Programme for the above period included the following topics that were considered at each of the meetings:

Minutes of the Corporate Resources Overview and Scrutiny Committee – these were submitted to each meeting of the Audit Committee for information and any member comments.

Responses from the Executive/Overview and Scrutiny – these were submitted for consideration and comment.

Internal Audit Progress Reports – these provided summaries of the work carried out by Cumbria Shared Internal Audit Service during the year. A copy of each Final Audit Report was appended to these Progress Reports, together with any relevant information relating to any follow-up reviews that had been undertaken where members' attention needed to be drawn to any outstanding recommendations and the reasons for these.

Treasury Management Reports – these regular reports kept Members informed of the Council's treasury management activities.

The programme also included a number of topics that are considered on an annual or an ad-hoc basis -

2.2.1 MEETING HELD 19TH APRIL 2016

AUDIT CERTIFICATION WORK 2014/15

- The Senior Manager (Grant Thornton) presented the final version of Grant Thornton's Letter on the findings from their certification work for Carlisle City Council for the year ended 31 March 2015.
- The Senior Manager (Grant Thornton) informed Members that they were satisfied that the Council had appropriate arrangements in place to compile and complete accurate and timely claims for audit certification.
- The Committee resolved that the Certification Work Report 2014/15 be noted and received and looked forward to submission of an update from the Director of Resources in terms of accuracy and training with Revenues and Benefits Services.

AUDIT PLAN 2015/16

- The Associate Director (Grant Thornton) presented the Audit Plan for Carlisle City Council for the year ended 31 March 2016, the content of which had been discussed with management.
- The Committee resolved that the Audit Plan for 2015/16 be noted and received.

AUDIT UPDATE REPORT 2015/16

- The Audit Manager (Grant Thornton) submitted a paper detailing progress in delivering Grant Thornton's responsibilities as the Council's external auditors. Also included was a summary of emerging national issues and developments which may be of relevance to the authority
- The Committee noted and received the content of the Update Report and made arrangements to receive further information from Grant Thornton on matters of interest such as a demonstration of the CFO Insights online analysis tool.

AUDIT FEE LETTER 2016/17

- The Director (Grant Thornton) presented the audit fee letter for 2016/17.
- The Committee noted and received the audit fee letter for 2016/17.

AUDIT COMMITTEE'S ANNUAL REPORT 2015/16

- The Chairman presented a report summarising the work undertaken by the Audit Committee during the period from 13 April 2015 to 18 January 2016.
- The Committee resolved that the Annual Report of the Audit Committee, which would be submitted to the City Council on 26 April 2016, be noted and accepted

INTERNAL AUDIT PLAN 2016/17

- The Audit Manager (Cumbria Shared Internal Audit Service) presented Internal Audit's annual risk based Audit Plan for approval by the Audit Committee as required by the Public Sector Internal Audit Standards (PSIAS).
- The Committee considered and approved the Internal Audit Plan for 2016/17 and Internal Audit Charter.

ACCOUNTING POLICIES 2015/16

- The Chief Accountant submitted a report providing details of the Council's accounting policies.

- The Audit Committee noted the content of the report and had given consideration to the Accounting Policies to be used in the preparation of the 2015/16 Accounts.

RECORDS MANAGEMENT UPDATE

- The Financial Services and HR Manager introduced this item in the absence of the Policy and Communication Manager. Members were disappointed that only a verbal report on this important area was planned as it is a significant weakness in the Annual Governance Statement. They were also unhappy that the responsible manager had not attended this meeting.
- The Audit Committee requested a full and detailed written report to their next meeting.

CORPORATE RISK MANAGEMENT

- The Deputy Chief Executive presented a report providing an update on the Council's risk management arrangements.
- The Audit Committee had considered and noted the content of the report as evidence of the continuing commitment to and culture of sound governance arrangements for corporate risk management.

2.2.2 MEETING HELD 7TH JULY 2016

APPOINTMENT OF CHAIR AND VICE CHAIR

- Councillor Patrick was duly appointed as Chair of the Audit Committee for 2016/17 municipal year and Councillor Bowditch was appointed as Vice Chair.

EXTERNAL AUDIT UPDATE REPORT 2015/16

- The Audit Manager (Grant Thornton) submitted a paper detailing progress in delivering Grant Thornton's responsibilities as the Council's external auditors.
- The Audit Committee noted and received the content of the Progress and Update Report for the year ended 31 March 2016.

RECORDS MANAGEMENT UPDATE

- In the absence of the Policy and Communications Manager and pursuant to the last meeting, the Policy and Performance Officer submitted a report providing an update on progress achieved with regard to the record management recommendations within the Code of Corporate Governance Action Plan.

- The Audit Committee resolved that the Policy and Communications Manager submit a written report to the 27 September 2016 meeting of the Committee; the report to include an Action Plan (setting out the recommendations; timescales for implementation; completion details and monitoring going forward) in order that Members may receive the required level of assurance regarding implementation of the various recommendations. The Policy and Communications Manager is also expected to attend the meeting.

ANNUAL GOVERNANCE STATEMENT 2015/16

- The Financial Services and HR Manager submitted a report providing the City Council's Annual Governance Statement for 2015/16 which had been certified by the Council's S151 Officer, Chief Executive and Leader, in accordance with statutory requirements, by 30 June 2016 and would be formally approved following completion of the audit process at the end of September 2016.
- 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 2015/16, Members had not received the required level of assurance from Managers with regard to the improvement plan and would therefore continue to monitor progress during 2016/17.
- The Audit Committee noted the content of the 2015/16 Annual Governance Statement, noting that the Statement would accompany the Annual Statement of Accounts.

STATEMENT OF ACCOUNTS 2015/16

- The Chief Accountant presented a report enclosing the Council's Statement of Accounts 2015/16 (subject to audit) which had been certified by the S.151 Officer in accordance with statutory requirements on 7 June in advance of statutory requirement of 30 June 2016. They would now be subject to audit, which must be concluded by the statutory deadline of 30 September 2016. .
- The following reports were also presented for information - Provisional General Fund Revenue Outturn 2015/16 and Provisional Capital Outturn 2015/16 and revised capital programme 2016/17.
- The Audit Committee noted the 2015/16 Statement of Accounts, which had been certified as giving a true and fair view by the Director of Resources, and would now be subject to audit. Also 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

TREASURY MANAGEMENT OUTTURN 2015/16

- The Chief Accountant submitted the Annual Report on Treasury Management 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 2016 - 31 March 2016 was also submitted.
- The Committee resolved that the report be noted and received.

INTERNAL AUDIT ANNUAL REPORT 2015/16

- The Audit Manager (Cumbria Shared Internal Audit Service) submitted the annual internal audit report, 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 2016.
- 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.
- The Audit Committee noted:
 - The progress achieved in 2015/16 in delivering the Audit Plan and the outcomes of completed audit reviews
 - 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 2016
 - 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 Service and outcomes from the Quality Assurance and Improvement Programme.

2.2.3 MEETING HELD ON 27TH SEPTEMBER 2016

RECORDS MANAGEMENT UPDATE

- The Policy and Communications Manager submitted a report providing an update on the record management recommendations within the Code of Corporate Governance Action Plan. 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
- The Audit Committee noted the updates and current position regarding records management and 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.

EXTERNAL AUDIT FINDINGS REPORT 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).
- 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.
- The Committee noted and received the positive Audit Findings Report for the year ended 31 March 2016 and welcomed the unqualified opinion on both the financial statements and the Value for Money conclusion.
- The Committee approved management's proposed treatment of the unadjusted misstatements detailed within the report.
- The Committee 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).

STATEMENT OF ACCOUNTS 2015/16

- The Chief Accountant reported on 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 Committee 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.
- The Audit Committee approved the 2015/16 Statement of Accounts, noting that also included the amended Annual Governance Statement.

LETTER OF REPRESENTATION 2015/16

- The Chief Accountant reported 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 Audit Committee approved the Letter of Representation for 2015/16 and authorised the Director of Resources to sign this for the Council.

EFFECTIVENESS REVIEW OF THE AUDIT COMMITTEE

- The Financial Services and HR Manager reported 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. Areas for improvement had been converted and summarised into an improvement plan for Member's consideration.
- The Committee noted the results of the review; agreed to the adoption and implementation of the actions as set out in the Improvement Plan; and requested 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.

LOCAL AUDIT AND ACCOUNTABILITY ACT 2014 – APPOINTMENT OF EXTERNAL AUDITOR

- The Financial Services and HR Manager reported that the Local Audit and Accountability Act 2014 included the abolition of the Audit Commission and established new arrangements for the audit and accountability of local public bodies.
- The Financial Services and HR Manager then summarised the options available to the Council in terms of the local appointment of external auditors, together with the associated advantages/benefits and disadvantages/risks
- The Committee recommended to Council that Council opts, in principle, into the sector-led procurement of local authority external auditors from 31 December 2017 and that final confirmation be delegated to the Chief Finance Officer in consultation with the Chairman of the Audit Committee.

FUTURE OF INTERNAL AUDIT

- The Director of Resources and Financial Services and HR Manager gave a presentation on the future options for administering the Internal Audit Services, given that the shared service arrangement would terminate on 31 March 2017.
- The Audit Committee had given in depth consideration to the Future of Internal Audit and sought assurance from the Executive that any new Internal Audit Service would remain independent of the Council's operational processes and that they have sight of the Business Case prior to any final decision being taken.

2.2.4 MEETING HELD ON 22ND DECEMBER 2016

ANNUAL AUDIT LETTER 2015/16

- The Associate Director (Grant Thornton) presented, for information, the Annual Audit Letter, the purpose of which was to summarise the key findings arising from the work carried out at Carlisle City Council for the year ended 31 March 2016.
- Members were asked to note that an additional fee in the order of £5,500 would be imposed to reflect the additional work required in relation to the Housing Benefit Grant Certification.
- The Audit Committee noted and received the Annual Audit Letter for 2015/16 and noted the additional fee for grant certification.

AUDIT COMMITTEE PROGRESS AND UPDATE REPORT

- The Audit Manager (Grant Thornton) submitted a paper detailing progress in delivering Grant Thornton's responsibilities as the Council's external auditors.
- The Audit Manager commented on the Housing Benefit Subsidy Claim and although there were no areas of significance to report to the Committee from the testing performed, the level of errors to report to the Department of Works and Pensions was higher than in previous years. Accordingly additional testing was required.
- Scheduling of the final accounts audit for 2016/17 was discussed as for the 2017/18 accounts the closure date was moving forward to 31 July and a "dry run" for earlier closure was planned.
- The Audit Committee noted and received the update report for the year ending 31 March 2017 and requested the Chief Finance Officer to consider future arrangements in relation to the final accounts audit in light of the earlier closure date.

FINAL ACCOUNTS PROCESS 2016/17

- The Chief Accountant submitted a report on the 2016/17 Final Accounts process.
- The Audit Committee noted the content of the report; and had considered the accounting policies to be used in the preparation of the 2016/17 Accounts.

TREASURY MANAGEMENT STRATEGY STATEMENT, INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION STRATEGY 2017/18

- The Chief Finance Officer submitted a report setting out the Council's draft Treasury Management Strategy Statement for 2017/18 in accordance with the CIPFA Code of Practice on Treasury Management.
- The Investment Strategy and the Minimum Revenue Provision Strategy for 2017/18 were incorporated as part of the Statement, as were the Prudential Indicators as required within the Prudential Code for Capital Finance in Local Authorities.
- The Committee resolved that the Treasury Management Strategy Statement, Investment Strategy and Minimum Revenue Provision Strategy 2017/18, be noted.

CORPORATE RISK MANAGEMENT

- The Corporate Director of Governance and Regulatory Services presented a report providing an update on the Council's risk management arrangements.

- The Audit Committee noted the content of the report as evidence of the continuing commitment to and culture of sound governance arrangements for corporate risk management.

FUTURE OF INTERNAL AUDIT

- The Financial Services & HR Manager submitted the draft business case on the future delivery of the internal audit function as an in-house provision, following the in-principle decision made by the Executive to bring the service back in-house.
- The Audit Committee supported the 'in principle' decision to bring the service back in house and expected that a full external review of the function be undertaken within 2 years of the service coming back in-house in order that the Committee may receive the required level of assurance that the service was working effectively.

3 TRAINING PROGRAMME

3.1 During 2016/17 Audit Committee Members and substitutes were invited to attend two workshops specifically for members of the Audit Committee; these being

- An Effectiveness Review of the Audit Committee – held on 19th April 2016 and facilitated by an external provider;
- Annual Audit Committee training - held on 28th June 2016 and supported by both internal and external officers. This covered the following areas:
 - The Role of the Audit Committee as the Council's Watchdog;
 - The Role of Internal Audit;
 - The Role of External Audit; and
 - Statement of Accounts training.

4 CONSULTATION

None

5 CONCLUSION AND RECOMMENDATION

5.1 Audit Committees are a key component of an authority's governance framework. The purpose of an audit committee is to provide to those charged with governance (The Council), independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance process. By overseeing internal and external

audit, it makes an important contribution to ensuring that effective assurance arrangements are in place.

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

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

6 CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

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

Contact Officer: Peter Usher, Audit Manager, Ext: 01228 226270
Shared Internal Audit Service

**Appendix A – Rules
of Governance
attached to report:**

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

- **None**

CORPORATE IMPLICATIONS/RISKS:

Economic Development – not applicable

Governance & Regulatory Services – not applicable

Local Environment – not applicable

Corporate Support & Resources – not applicable

**AUDIT COMMITTEE
RULES OF GOVERNANCE**

1. STATEMENT OF PURPOSE

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

2. TERMS OF REFERENCE

2.1 Audit Activity

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

To consider summaries of specific internal audit reports as requested.

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

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

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

To consider specific reports as agreed with the external auditor.

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

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

To commission work from internal and external audit.

2.2 Regulatory Framework

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

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

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

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

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

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

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

2.3 Accounts

To approve the Annual Statement of Accounts, income and expenditure and balance sheet.
To consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.

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

3. ACCOUNTABILITY

- 3.1 The Audit Committee will be a stand-alone Committee of the Council. All Audit Committee members will act in the interests of the Council and not on behalf of any political party, constituency, ward, or interest group.
- 3.2 The Chairman of the Audit Committee will be appointed by the Committee. The Chairman and the Committee will ensure that relevant issues are promptly brought to the attention of the Executive, Overview and Scrutiny Panels and Regulatory Committees or the full Council.
- 3.3 The Chairman of the Audit Committee will present an Annual Report on the work of the Audit Committee to the full Council.

4. AUTHORITY AND ACCESS

- 4.1 The Audit Committee has a right to request relevant information from appropriate or relevant Members and Officers of the Council.
- 4.2 The Audit Committee will not be able to transact the powers, functions and duties reserved to the full Council, the Executive, Overview and Scrutiny Panels and other Regulatory Committees.
- 4.3 The Audit Committee will have access to in-house financial, legal and any other professional advice necessary to carry out its functions.

- 4.4 The Chairman of the Audit Committee and the external and internal auditor will meet as necessary and the Council's Audit Services Manager will provide necessary services and support and assistance to the Audit Committee.
- 4.5 Any Member, Officer or member of the public who has any concern covered by the Terms of Reference of the Audit Committee may raise the matter with the Chairman of the Committee who will obtain, if necessary, relevant advice from the Council's Monitoring Officer or the Section 151, Chief Finance Officer before taking any action with regard to the same.

5. MEMBERSHIP

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

6. ATTENDANCE

- 6.1 The Audit Committee shall meet on a regular basis as provided for in paragraph 7 below. Officers and others may attend all or part of the meeting at the invitation of the Committee. Attendees may include:
- The Leader or Deputy Leader
 - The Portfolio Holder for Finance
 - Town Clerk and Chief Executive
 - Chief Finance Officer (Section 151)
 - Corporate Director of Governance and Regulatory Services (Monitoring Officer)
 - Audit Services Manager
 - Other Directors and Managers, as required
- 6.2 Subject to the relevant meeting complying with the Access to Information paragraphs for the exclusion of members of the public, the Audit Committee will at least annually meet :

- (i) in private, with the external and internal auditors together; and/or
- (ii) in private, with the external auditor.

7. MEETINGS

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

8. QUORUM

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

9. WORK PROFILE OF THE AUDIT COMMITTEE

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

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

9.3 Corporate Governance Framework

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

9.4 Internal Audit

To review and make recommendations to the Executive regarding:

- The effectiveness of internal audit;
- the internal audit function to ensure it is adequately resourced;
- the internal audit strategy, annual plan and to monitor delivery of the plan;
- any internal audit protocols and policies;

- significant audit findings, together with the response from managers to these reports;
- any difficulties encountered by internal audit including any restrictions on the scope of activities or access to required information;
- agreed internal audit recommendations to ensure they are implemented by management as timetabled; and
- the annual report from the Audit Services Manager.

9.5 Other

To consider and make recommendations to the Executive on:

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

Report to Audit Committee

Agenda
Item:

A.6

Meeting Date: 16 March 2017
Portfolio: Finance, Governance and Resources
Key Decision: No
Within Policy and Budget Framework: Yes
Public

Title: Internal Audit Plan 2017/18

Report of: Chief Finance Officer

Report Number: RD61/16

Purpose / Summary:

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

Recommendations:

Members are requested to:

- Approve the 2017/18 Audit Plan which is attached at Appendix A and Appendix E.
- Approve the Internal Audit Charter for 2017/18 attached at Appendix F

Tracking

Audit Committee	16 March 2017
Overview and Scrutiny:	Not applicable
Council:	Not applicable

1.0 BACKGROUND

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

2.0 UPDATE ON ESTABLISHMENT OF INTERNAL AUDIT SERVICE

- 2.1 As of 1 April the Council will operate the internal audit service in-house, having decided not to continue with the Internal Audit Shared Service through the County Council. Therefore, the Audit Plan presented in this report will reflect the work of the new Internal Audit team that is to be established from 1 April.
- 2.2 Progress is being made with the County Council with regard to the TUPE arrangements for staff to transfer back to the Council on 1 April. There will be two ‘Senior Auditor’ posts transferring back to the Council and a meeting was held with the two members of staff affected on 2 March. New job descriptions have been prepared and recruitment to the Principal Auditor post will be undertaken imminently.
- 2.3 Work is also underway on preparing report templates, working papers and guidelines for the new audit team to work to from 1 April. A new draft report template will be brought to Audit Committee in July for information and comment.

3.0 INTERNAL AUDIT SERVICE DELIVERY

- 3.1 The PSIAS require that the Internal Audit Plan sets out a high level statement of how the Internal Audit Service will be delivered and developed in accordance with the internal audit charter and how it links to the organisational objectives and priorities.
- 3.2 The Internal Audit plan is prepared in consultation with the Senior Management Team and approved by the Audit Committee.

- 3.3 It is a requirement of the PSIAS that the Council has in place an Audit Charter. The Charter, which is attached as **Appendix F**, sets out the arrangements for the delivery of the Internal Audit service the Council was originally approved by the Committee in April 2014. Changes have been made to the Charter for 2017/18 to reflect the new in-house provision by the Council and the revised PSIAS issued in March 2016.

4.0 ROLES OF MANAGEMENT AND OF INTERNAL AUDIT

- 4.1 It is the role of management to establish effective systems of governance, risk management and internal controls in order to:
- safeguard the Council's resources and prevent fraud;
 - ensure the completeness and reliability of records;
 - monitor adherence to laws, regulations, policies and procedures;
 - promote operational efficiency demonstrate the achievement of value for money; and
 - manage risk.
- 4.2 It is the role of Internal Audit to provide independent assurance to senior management and the Audit Committee that the Council has implemented adequate and effective procedures in relation to these responsibilities.
- 4.3 In order to safeguard its independence, Internal Audit does not have any operational responsibilities and is not responsible for any of the decision making, policy setting or monitoring of compliance within the Council.

5.0 INTERNAL AUDIT RESOURCES

- 5.1 It is proposed that there will be 550 direct days of Internal Audit time in 2017/18. This compares to 450 direct days in 2016/17.
- 5.2 The increase in days is reflective of additional duties that the internal audit team will cover during the year, for example, VFM reviews and additional Governance reviews.
- 5.3 This level of coverage is considered sufficient to provide an opinion on the systems of governance, risk and internal control in line with the PSIAS and in order to support the preparation of the Annual Governance Statement. It is therefore crucial that the Council facilitates internal audit to undertake its work effectively and in line with timescales for Audit Committee.
- 5.4 The PSIAS also reflect the requirement for internal audit plans to be flexible in order to respond to new and emerging risks to the organisation. Some capacity is therefore built into the Plan to allow Internal Audit to respond to such issues. However, should this contingency be exhausted during the year, the approved Plan may need to be revised. In this event, revisions would be considered and agreed by the Chief Finance Officer and reported to the Audit Committee, including the need for any additional audit resources if appropriate. Any request for significant consulting activity by Internal Audit would be approved by the Audit Committee in line with the requirements of the Public Sector Internal Audit Standards.

6.0 CATEGORIES OF INTERNAL AUDIT WORK

- 6.1 **Corporate Reviews** – these are reviews which are strategic in nature or which cut across the entire Council. These reviews are designed to provide assurance that the Council has effective governance and risk management arrangements to mitigate strategic risks.
- 6.2 **Directorate Risk-Based Audit Reviews** – these reviews have been identified in consultation with senior management and following reviews of the Annual Governance Statement Action Plan and Corporate Risk Register. These reviews are spread across service areas following a risk assessment to ensure that Internal Audit resources are targeted at the areas where the greatest benefit will be achieved.
- 6.3 **Financial System Reviews** – a three-year programme is in place which ensures that each main financial system is reviewed in depth at least once every three years. Management also has a responsibility to ensure that all financial systems continue to operate effectively each year and has asked Internal Audit to confirm with relevant managers that basic controls continue to operate. This will involve completing internal control questionnaires with relevant managers and providing these to the S 151 officer for information.
- 6.4 **Governance System Reviews** – a provision is included for cyclical reviews of key governance systems. These are performance management, risk management and compliance with local code of corporate governance.
- 6.5 **Follow Up Audits** – a provision for follow up work is included in the Plan to ensure that any audits with less than reasonable assurance are followed up line with the agreed follow up approach outlined at 6.11.
- 6.6 **Counter Fraud** – the Plan includes a provision for counter fraud work including the National Fraud Initiative (NFI). Capacity is also built into the Plan for reactive work should irregularities occur requiring Internal Audit to advise management on their investigations.
- 6.7 **Advice and guidance** – capacity has been built into the plan for advice and guidance to all services across the Council as well as contingency to respond to emerging risks.
- 6.8 **Contingency** – small allocation of time to respond to emerging risks and unplanned work. This might include requests to audit grant claims for example.
- 6.9 **VFM & Efficiency Reviews** – additional days will be included in the plan for undertaking Value for Money and Efficiency Reviews and these will be determined throughout the year.
- 6.10 A summary of the number of days allocated to each category of audit work is shown below.

Category	Days Allocated
Corporate Reviews	60
Directorate Risk Based Audit Reviews	220
Financial System Reviews	90
Governance System Reviews incl. Local Code of Corporate Governance and Good Governance Principles	30
Follow Up Audits	25
Counter Fraud incl. policy review	20
Advice and Guidance	20
Contingency	25
VFM & Efficiency Reviews	20
Audit Committees, incl. Effectiveness Reviews	20
Planning/Management	20
TOTAL	550

6.11 Audit Follow Up Arrangements:

6.11.1 It is a requirement of the PSIAS that the Head of Internal Audit maintains a system to follow up the implementation of agreed actions from internal audit work. In order to ensure the most effective use of internal audit resources, we will only follow up the implementation of agreed actions arising from audits that result in partial or limited assurance.

6.11.2 Follow up will be undertaken approximately six months after the issue of the final audit report or in line with the latest agreed timescales for implementation. Where appropriate a revised audit opinion will be issued and reported to the Audit Committee.

6.11.3 Where a follow up is due, but management advise that all actions have not been fully implemented, the follow up will be deferred for a maximum of a month to allow actions to be fully implemented. Internal Audit will undertake one follow up and the outcomes will be reported to Audit Committee. Where the follow up does not allow for a revised audit opinion, the Corporate Director will be informed and requested to continue to monitor the implementation within the directorate. A summary report will be provided to Audit Committee. Internal audit will write to the Corporate Director after a further six months to gain assurance that the remaining actions have been implemented.

6.11.4 Where possible, follow ups will be undertaken in the same year as the original audit in order that revised assurance can be incorporated within the annual report and opinion.

7.0 PERFORMANCE STANDARDS

7.1 As the Council will have its own internal audit service, performance will be developed with Senior Management Team and be reported to the Audit Committee as part of the progress reporting arrangements in 2017/18. Further information on the proposed measures will be reported to a future Committee. Regular liaison meetings with the S151 Officer will also continue to be held to discuss ongoing issues.

8.0 CONSULTATION

- 8.1 Members of the Senior Management Team (SMT) have individually considered their respective areas of the Audit Plan and SMT considered the Draft Audit Plan at its meeting on 28th February 2017.

9.0 CONCLUSION AND REASONS FOR RECOMMENDATIONS

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

10.0 CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

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

Contact Officer: Steven Tickner

Tel: 817280

**Appendices
attached to report:**

Appendix A – E - 2017/18 Draft Audit Plan

Appendix F – Internal Audit Charter

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

- None

CORPORATE IMPLICATIONS/RISKS:

Community Services – not applicable

Economic Development – not applicable

Governance & Regulatory Services – not applicable

Corporate Support and Resources – not applicable

AUDIT PLAN 2017/18 - CATEGORIES OF WORK

Appendix A

Category	Description	Days Allocated	Days Allocated 16/17 (For Info)
Corporate Reviews	Reviews that are strategic in nature or which cut across the entire Council. These reviews are designed to provide assurance that the Council has effective governance and risk management arrangements to mitigate strategic risks	60	55
Directorate Risk Based Audit Reviews	Reviews that have been identified in consultation with senior management and following reviews of the Annual Governance Statement Action Plan and Corporate Risk Register. These reviews are spread across service areas following a risk assessment to ensure that Internal Audit resources are targeted at the areas where the greatest benefit will be achieved.	220	205
Financial System Reviews	A three-year programme is in place which ensures that each main financial system is reviewed in depth at least once every three years. Management also has a responsibility to ensure that all financial systems continue to operate effectively each year and has asked Internal Audit to confirm with relevant managers that basic controls continue to operate. This will involve completing internal control questionnaires with relevant managers and providing these to the S 151 officer for information.	90	70
Governance System Reviews incl. Local Code of Corporate Governance	Provision is included for cyclical reviews of key governance systems. These are performance management, risk management and compliance with local code of corporate governance. Includes Annual Governance Statement	30	20
Follow Up Audits	Provision for follow up work is included in the Plan to ensure that any audits with less than reasonable assurance are followed up in line with agreed approach	25	10
Counter Fraud incl. policy review	Plan includes provision for counter fraud work including the National Fraud Initiative (NFI). Capacity is also built into the Plan for reactive work should irregularities occur requiring Internal Audit to advise management on their investigations	20	15
Advice and Guidance	Capacity is built into the plan for advice and guidance to all services across the Council as well as contingency to respond to emerging risks.	20	20
Contingency	A small allocation of time to respond to emerging risks and unplanned work. This might include requests to audit grant claims for example.	25	15
VFM & Efficiency Reviews		20	n/a
Audit Committees, incl. Effectiveness Reviews		20	20
Planning/Management		20	20
TOTAL		550	450

AUDIT PLAN 2017/18 - RISK BASED REVIEWS

Directorate	Review	Proposed Scope	Days to Include in 17/18 Audit Plan
Community Services	Arts Centre	CFWD FROM 16/17 The Arts Centre is now established at the Old Fire Station. The review will provide assurance over management arrangements to ensure that the Centre operates effectively to achieve its financial and other objectives	20
Community Services	Garage incl. Driver checks	To provide assurance that the Garage operates effectively in the management of the Council's fleet, and effectively manages its objectives and external customer requirements.	20
Community Services	Takin Tarn & Boathouse Tea Room	To provide assurance that operations at Takin Tarn are effective and that it achieves its financial and operational objectives	20
Corporate Support & Resources	Corporate Charge Card	To review the use of Corporate Credit Cards and to review alternative solutions to determine best use of cards for purchases where normal creditor purchases are not possible.	20
Corporate Support & Resources	Safeguarding incl DBS	To review arrangements by the Council around Safeguarding including review of arrangements on DBS checking	20
Corporate Support & Resources	Flexitime and TOIL	To review the arrangements for Flexi time and TOIL to ensure consistency around the Council and that the policy is effectively applied. To also investigate potential alternative solutions and whether Flexi time is an effective staff benefit.	20
Corporate Support & Resources	Salary Sacrifice & Holiday Purchase Schemes	To review arrangements around the schemes offered under Salary Sacrifice to ensure they are operated effectively and achieve the objectives set.	20

Directorate	Review	Proposed Scope	Days to Include in 17/18 Audit Plan
Economic Development	Section 106 agreements / CIL	To review arrangements around the funding received from S.106 agreements, that agreements are monitored effectively, and funds identified are spent in accordance with those agreements.	20
Governance & Regulatory Services	Gifts and Hospitality	To review whether arrangements in place for recording of gifts and hospitality are effective	20
Governance & Regulatory Services	Public health & safety/enforcement	CFWD FROM 2016/17 To provide assurance that Health & Safety for the public is managed effectively across the service. This would include specific risks at parks/playgrounds and also in Environmental Health	20
Governance & Regulatory Services	Supporting People (grant income, Hostels & Homeshares)	To review the grant arrangements for the delivery of the supporting people agreements to ensure they are delivered in accordance with requirements.	20
TOTAL DAYS			220

AUDIT PLAN 2017/18 - FOLLOW UP AUDITS

Directorate	Review		Days to Include in 17/18 Audit Plan
Governance & Regulatory Services	Home Life		
Governance & Regulatory Services	Building Maintenance		
Economic Development	Enterprise Centre		
Corporate Support & Resources	Benefit Overpayments		
Corporate Support & Resources	Workforce Development and Training		
Community Services	Records Management		
TOTAL DAYS			25

N.B There may be additional follow ups required depending upon the outcome of audit work currently in progress

AUDIT PLAN 2017/18 - CORPORATE REVIEWS

Directorate	Review		Days to Include in 17/18 Audit Plan
Corporate	Corporate Governance - Compliance with Local Code	CFWD FROM 2016/17	20
Corporate	Performance Management	The Council has stopped using the Covalent system to support performance management and is introducing the PRISM system. Performance Management is a key component of effective governance to ensure objectives are met. This review will provide assurance over management arrangements to ensure that the new PRISM system is effectively supporting performance management	20
Corporate	Business Continuity Planning		20
TOTAL DAYS			60

AUDIT PLAN 2017/18 - MAIN FINANCIAL SYSTEMS

Directorate	Review		Days to Include in 17/18 Audit Plan
Corporate Support & Resources	Debtors		20
Corporate Support & Resources	Payroll		20
Corporate Support & Resources	Housing and Council Tax Benefits		20
Corporate Support & Resources	Cash Income	C/FWD FROM 2016/17	20
Corporate Support & Resources	Internal Control Questionnaires - Non Audited Systems		10
TOTAL DAYS			90

INTERNAL AUDIT CHARTER

1. Introduction

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

2. The Mission of Internal Audit

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

3. Purpose

- 3.1. Carlisle City Council Internal Audit Service has adopted the Definition of Internal Auditing from the PSIAS. The definition explains the purpose of the internal audit activity:
Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

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

4 Core Principles for the Professional Practice of Internal Auditing

- 4.1 The Core Principles, taken as whole, articulate internal audit effectiveness.

4.2 For an internal audit function to be considered effective, all Principles should be present and operating effectively. The delegated Head of Internal Audit Service is responsible for ensuring that internal auditors, as well as the internal audit activity, demonstrate achievement of the Core Principles.

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

5 The Role of Internal Audit

5.4 Internal Audit is an independent, objective assurance and consulting service designed to add value and improve the Council's operations. Internal Audit helps the Council to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The diagram attached illustrates how Internal Audit supports the governance framework and provides a line of defence in ensuring that organisations are adequately managing their risks.

5.5 Internal Audit operates as an 'independent' in-house team at the Council.

5.6 The services provided by Internal Audit are designed to assist each of the Council's departments to continually improve the effectiveness of their respective risk management, control and governance frameworks and processes and to allow an independent, annual opinion to be provided on the adequacy and effectiveness of these arrangements.

5.7 Internal Audit activities in support of this include:

- Planning and undertaking an annual programme of risk-based internal audit reviews focusing on risk management, internal control and governance;
- Review of arrangements for preventing, detecting and dealing with fraud and corruption;
- Review of overall arrangements for risk management and corporate governance;
- Review of grant funded expenditure where assurance is required by funding bodies or where risks are considered to be high;
- Provision of advice on risk and control related matters;
- Consultancy services which may include hot assurance on projects or service and system development;
- Investigation of suspected fraud or irregularity or provision of advice and support to management in undertaking an investigation; and
- Advice on strengthening controls following such an incident.

6 Authority, Responsibility and Objectives

Authority

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

Responsibilities and Objectives

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

Planning

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

Implementation

- Deliver the approved annual programme of internal audit work and report the outcomes in full to senior management (as agreed at the scoping stage of each engagement) and in summary to the Audit Committee. Where locally agreed, internal audit reports may also be reported in full to the Audit Committee;
- Assist, as required, in the investigation of significant suspected fraudulent activities within the Council and report the outcomes to senior management (S151 Officer, Monitoring Officer and other relevant Corporate Directors); and
- Monitor implementation of agreed audit recommendations through follow up process and report the outcomes to Senior Management and the Audit Committee.

Reporting

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

Relationships with other Inspectorates

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

Non-Audit / management responsibilities

- 6.7 In order for Internal Audit to maintain its independence and thereby provide an independent and objective opinion, there are a number of areas that internal audit is not responsible for:
- Internal Audit does not have any operational responsibilities;
 - Internal Audit does not have any part in decision making within the organisation or for authorising transactions, and
 - Internal Audit is not responsible for implementing its recommendations or for ensuring that these are implemented.
- 6.8 The presence of internal audit does not in any way detract from management's responsibilities for maintaining effective systems of governance, risk management and internal control.
- 6.9 Internal audit does not have any responsibilities for preventing or detecting fraud or error, this is the responsibility of the management of the respective organisations. Internal audit's role is to provide senior management and the Audit Committee with assurance that the management of the organisation have themselves established procedures that allow them to prevent or detect fraud or error and to respond appropriately should this occur.
- 6.10 It is the responsibility of the respective organisations' management to maintain adequate systems of internal control and to review their systems to ensure that controls continue to operate effectively.
- 6.11 The role of Internal Audit vs the Management of the organisation is summarised in the diagram attached (Third Line of Defence).

7 Scope of Internal Audit Work

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

8 Position and Reporting Lines for Internal Audit

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

9 Ethics, Independence and Objectivity

Ethics

- 9.1 Internal Audit works to the highest standards of ethics and has a responsibility to both uphold and promote high standards of behaviour and conduct.

- 9.2 All internal auditors working within the UK public sector are now required to comply with the mandatory Code of Ethics contained within the new Public Sector Internal Audit Standards. As such this Code has been adopted Internal Audit Service and all staff will be requested to sign up to the Code on an annual basis. Auditors within the service are also required to comply with the codes of ethics of their professional bodies.

Independence

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

Resourcing, Proficiency and Due Professional Care

- 9.6 For internal audit to provide an opinion to each Authority within the Internal Audit Service there must be a sufficiently resourced team of staff with the appropriate mix of skills and qualifications. Resources must be effectively deployed to deliver the approved programmes of work.
- 9.7 It is the responsibility of the Senior Management Team to ensure that they approve a programme of audit work sufficient to provide an adequate level of assurance over their systems of risk management, internal control and governance.
- 9.8 Internal Auditors, by the nature of their work, will receive and review significant volumes of information from the various clients of the Internal Audit Service. Confidentiality is therefore paramount and all internal audit staff are bound by the mandatory Code of Ethics within the PSIAS. The Code requires that auditors do not disclose information without the appropriate authority unless there is a legal or professional obligation to do so.
- 9.9 In line with the requirements of the Standards, in the event that the delegated Head of Internal Audit considers that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences will be brought to the attention of the Audit Committee.
- 9.10 In line with the requirements of the PSIAS and the CIPFA Statement on the Role of the Head of Internal Audit (2010), the delegated Head of Internal Audit, is professionally qualified and appropriately experienced.

The Role of Internal Audit in Fraud-related work

- 9.11 The PSIAS require that the role of internal audit in any fraud-related work is defined within the audit charter.

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

Advice / Consultancy work

- 9.14 Where Internal Audit is requested to provide advice, consultancy or investigatory work, the request will be assessed by the delegated Head of Internal Audit. Such assignments will be accepted where it is considered the following criteria are met:
- The work request aligns with the available skills and resources within Internal Audit at the time
 - The assignment will contribute to strengthening the control framework
 - No conflict of interest could be perceived from Internal Audit's acceptance of the assignment; and
 - The request relates to functions that are the responsibility of the organisation's management and are thereby not appropriate internal audit tasks.
- 9.15 In line with the PSIAS, approval will be sought from the Audit Committee for any significant additional consulting services not already included in the audit plan prior to accepting the engagement.

10 Management Responsibilities

- 10.1 For Internal Audit to be fully effective, it needs the full commitment and cooperation from management in the Council. In approving this Charter, the S151 Officer (Chief Finance Officer) and the Audit Committee are mandating management to cooperate with Internal Audit in the delivery of the service by:
- Attending audit planning and scoping meetings and agreeing the terms of reference for individual audit assignments on a timely basis.
 - Sponsoring each audit assignment at Service Manager level or above.
 - Providing Internal Audit with full support and cooperation, including complete access to all records, data, property and personal relevant to the audit assignment on a timely basis.
 - Responding to internal audit reports and making themselves available for audit closeout meetings to agree draft audit reports.
 - Implementing audit recommendations within agreed timescales.
- 10.2 Instances of non-cooperation with reasonable audit requests will be escalated through the S151 Officer and ultimately to the Audit Committee if necessary.

- 10.3 While Internal Audit is responsible for providing independent assurance to the Council and the Audit Committee, it is the responsibility of the organisations' management to develop and maintain appropriately controlled systems and operations. Internal Audit does not remove the responsibility from management to continually review the systems and processes for which they are responsible and to provide their own assurances to senior management and Elected Members that they are maintaining appropriately controlled systems.

11 Quality Assurance

- 11.1 Public Sector Internal Audit Standards require that the Internal Audit function is subject to a quality assurance and improvement programme that must include both internal and external assessments. Internal Audit will report the outcomes of quality assessments to the Audit Committee through its regular and annual reports.

Internal assessments

- 11.2 All internal audit reviews are subject to management quality review to ensure that the work meets the standards expected for audit staff. Such management review will include:

- Ensure the work complies with the PSIAS;
- Work is planned and undertaken in accordance with the level of assessed risk; and
- Appropriate testing is undertaken to support the conclusions drawn.

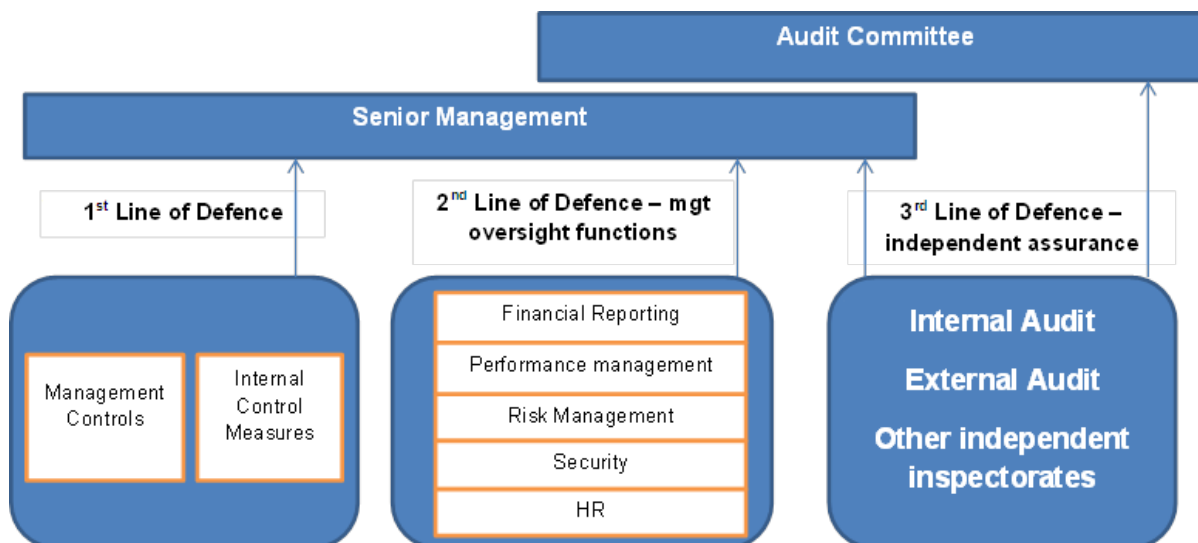
External assessments

- 11.3 An external assessment must be conducted at least every five years by a qualified, independent assessor from outside the organisation. The delegated Head of Internal Audit will discuss options for the assessment with the Audit Committee and Senior Management Team.

12 Review of the Audit Charter

- 9.1. This Charter will be reviewed annually and approved alongside the annual audit plan.

Internal Audit - The Third Line of Defence



The above diagram demonstrates the three lines of defence in ensuring that organisations are adequately managing their risks.

The first line of defence comprises the arrangements that operational management have implemented to ensure risks are identified and managed. These include the controls that are in place within systems and processes together with the management and supervisory oversight designed to identify and correct any issues arising.

The second line of defence refers to the strategic oversight arrangements that are designed to provide management with information to confirm that the controls in the first line of defence are operating effectively. For example the risk management policies and strategies that determine how risks within the organisation will be identified, assessed and managed and the reporting arrangements to confirm that these policies and strategies are being appropriately implemented and complied with.

Internal audit forms the third line of defence alongside other independent providers of assurance. The role of internal audit is to provide the senior management and Elected Members of the organisation with assurance that the arrangements within the first and second lines of defence are adequate and working effectively to manage the risks faced by the organisation.

Report to Audit Committee

Agenda
Item:

A.7

Meeting Date: 16 March 2017
Portfolio: Finance, Governance and Resources
Key Decision: No
Within Policy and Budget Framework: Yes
Public

Title: Internal Audit Progress Report 2016-17
Report of: Chief Finance Officer
Report Number: RD60/16

Purpose / Summary:

This report summarises the work carried out by Internal Audit and details progress against the 2016/17 Audit Plan.

Recommendations:

Members are requested to:

- Note the progress on the 2016/17 Audit Plan - see Section 2
- Note that 3 audits will be carried forward for inclusion in the 2017/18 audit plan
- Receive finalised audit reports – see Section 4

Tracking

Audit Committee	16 March 2017
Overview and Scrutiny:	Not applicable
Council:	Not applicable

1 BACKGROUND

- 1.1 Management is responsible for establishing effective systems of governance, risk management and internal controls. It is the responsibility of management to establish appropriate arrangements to confirm that their systems are working effectively; that all information within them is accurate; and that they are free from fraud or error.
- 1.2 Internal Audit's role is to provide independent assurance to senior management and Audit Committee over the adequacy and effectiveness of management's arrangements for governance, risk management and internal control.
- 1.3 This report summarises the work carried out by Internal Audit in the latest period.

2 PROGRESS AGAINST AUDIT PLAN

2016/17 PLAN

- 2.1 The 2016/17 Annual Risk Based Audit Plan was agreed by the Audit Committee on 19 April 2016 – report RD 01/16 refers. A summary of the overall 2016/17 plan position is included at **Appendix A** for information.
- 2.2 In light of Carlisle City Council withdrawing from the Cumbria Internal Audit Shared Service on 31 March, management has agreed that 3 audits in the 2016/17 plan will be carried forward and included in the 2017/18 plan to be delivered by the new in-house internal audit team.
- 2.3 Provided that all remaining audits underway at 31 March can be completed to meet Audit Committee timescales there should be 16 risk based audits to inform the annual audit opinion. Based on current expectations this will mean that the remaining 10 audits still to be finalised will come to Audit Committee in July alongside the Internal Audit Annual Report.
- 2.4 Internal Audit has been unable to progress the records management aspect of the audit on Information Governance within a reasonable timescale and staff resources are no longer available to undertake this piece of work. It has been recommended that this review is now included in the 2017/18 audit plan.
- 2.5 The audit of asset acquisitions and disposals has been delayed due to a key contact at Carlisle City being absent from work; however the scoping meeting has now been held.

- 2.6 In this period Internal Audit has also completed a grant claim for the Broadband Voucher Scheme.

2015/16 PLAN

- 2.7 The only item relating to the 2015/16 plan that is not complete is the follow up review of Homeworking. A management update statement has been provided but information to confirm the implementation of agreed actions is still being sought, in particular the documented risk assessments for homeworkers..

3 INTERNAL AUDIT PERFORMANCE MEASURES

- 3.1 Performance measures for Internal Audit are included at **Appendix B** for information.

3. COMPLETED AUDIT WORK

3.1. Final Audit Reports

- 3.1.1. The following is a summary of reports finalised in the latest period. These are now included as separate agenda items.

Audit	Assurance Opinion
Development Management	Reasonable
Rethinking waste project management	Partial

4. CONSULTATION

Not applicable

5. CONCLUSION AND REASONS FOR RECOMMENDATIONS

- 5.1. The recommendations made in this report will enable Members to track the progress on the delivery of the Audit Plans and gain assurance from the independent audit work undertaken.

6. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

- 6.1. To support the Council in maintaining an effective framework regarding governance, risk management and internal control which underpins the delivery the Council's corporate priorities and helps to ensure efficient use of Council resources.

Contact Officer: Peter Usher Tel: 01228 226255
Audit Manager
(Cumbria Shared Internal Audit Service)

Peter Usher

Tel: 01228 226255

Audit Manager

(Cumbria Shared Internal Audit Service)

Appendices A-B **Appendix A – 2016/17 Audit Plan update**
attached to report: **Appendix B – Internal Audit performance measures**

Appendix A – 2016/17 Audit Plan update

attached to report:

Appendix B – Internal Audit performance measures

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

Information) Act 1985 the report has been prepared in part from the following

papers:

- None

CARLISLE CITY COUNCIL
AUDIT PLAN 2016/17

Directorate	Audit Area	Allocated Days	Status	Audit Committee Date	Assurance Evaluation	Comments
Corporate	Physical security of premises	15	Ongoing	July 2017		Findings meeting held – draft report due for issue
Corporate	Performance management	20	Ongoing	July 2017		Establishing actual controls
Corporate	Information Governance	20	Ongoing	July 2017		Unable to progress records management aspect of scope
Chief Executive's Team	Communication	20	Final	Dec 2016	Substantial	
Deputy Chief Executive's Team	Arts Centre	20	Deferred			Agreed to carry forward
Economic Development	Development Control	20	Final	Mar 2017	Reasonable	
Economic Development	Disabled Facilities Grants (DFG's)	20	Draft issued	July 2017		
Local Environment	Waste management	20	Final	Mar 2017	Partial	
Local Environment	Education and Enforcement - brought forward from 2015/16 audit plan so days not from 16/17 plan	20	Deferred	Sept 2016		Committee agreed to management's request to defer this review until 2017/18 audit plan
Local Environment	Car park income	20	Ongoing	July 2017		Testing underway
Local Environment	Health and Safety	20	Deferred			Agreed to carry forward
Governance	Asset acquisition and disposal programme	20	Ongoing	July 2017		Start delayed – now establishing actual controls
Governance	Electoral Registration	15	Final	Dec 2016	Reasonable	
Governance	Licensing	15	Final	Sept 2016	Reasonable	
Resources	Early Release (ER) & Voluntary Redundancy (VR) Schemes	20	Ongoing	July 2017		Testing underway

Directorate	Audit Area	Allocated Days	Status	Audit Committee Date	Assurance Evaluation	Comments
Cyclical review	Treasury Management	20	Final	Sept 2016	Substantial	
Cyclical review	Income collection & receipting	20	Ongoing	July 2017		Scope agreed
Cyclical review	NNDR	20	Ongoing	July 2017		Testing underway
Cyclical review	Corporate Governance – compliance with Local Code	20	Deferred			Agreed to carry forward
Resources	Procurement (audit deferred from 2015/16) audit	10	Ongoing	July 2017		Fieldwork completed

APPENDIX B

Internal Audit Management Performance Measures

KPI	Measure of Assessment	Target	Actual Performance (to 28 Feb 2017)	Comments
Planned audits completed	% of planned audit reviews (or approved amendments to the plan) completed in respect of the financial year.	95% of overall plan	On target	There are 16 audits in the revised 2016/17 plan. 7 draft/final reports issued (44% of plan) 9 audits in progress (56%)
Audit scopes agreed	% of audit scopes agreed with management and issued before commencement of the audit fieldwork	100%	On target	100% Scoping meetings are held for all planned audit assignments and client notifications are produced for each.
Draft reports issued by agreed deadline	% of draft internal audit reports issued by the agreed deadline or formally approved revised deadline agreed by Audit Manager and client.	80%	43%	Of 7 draft reports issued, 3 were issued by the agreed deadline (43%) 2 of those outside the draft report deadline were issued within approximately a week of deadline.

KPI	Measure of Assessment	Target	Actual Performance (to 30 Nov 2016)	Comments
Timeliness of final reports	% of final internal audit reports issued for Corporate Director comments within 8 working days of management response or closeout.	80%	100%	100% In most cases the Corporate Director is involved in the closeout meeting and completion of action plan so their response is provided with the action plan.
Recommendations agreed	% of recommendations accepted by management	95%	95%	20 of 21 recommendations accepted
Assignment completion	% individual reviews completed to required standard within target days	50%	67%	For 6 completed reviews, 4 have been completed within budget days.
Quality Assurance checks completed	% QA checks completed	100%.	100%	Independent QA checks have been applied at agreed stages of all audits
Post audit customer satisfaction survey feedback	% of customer satisfaction surveys scoring the service as 'good'	80%	83%	This is based on 8 completed surveys for audits finalised since July 2016. No additional surveys received since last monitoring report.
Efficiency	% chargeable time	80%	80%	This is measured across the Shared Service overall and is not specific to any single participant.

Cumbria Shared Internal Audit Service
Audit Report for Carlisle City Council
Economic Development Directorate



Audit of Development Management

Draft Report Issued: 29 November 2016
Final Report Issued: 23 February 2017

Audit Resources

Title	Name	Email	Telephone
Audit Manager	Peter Usher	peter.usher@cumbria.gov.uk	01228 226270
Lead Auditor(s)	Diane Lowry	diane.lowry@cumbria.gov.uk	01228 226281

Audit Report Distribution

For Action:	Christopher Hardman – Development Management Manager
For Information:	Jane Meek, Corporate Director of Economic Development
Audit Committee	The Audit Committee, which is due to be held on 16 th March 2017, will receive the findings and recommendations from this audit.

Cumbria Shared Internal Audit Service

Images courtesy of Carlisle City Council except: Parks (ChineseGardens), www.sjstudios.co.uk, Monument (Market Cross), Jason Friend, The Courts (Citadel), Jonathan Becker



Executive Summary

1. Background

- 1.1. This report summarises the findings from the audit of Development Management. This was a planned audit assignment which was undertaken in accordance with the 2016/17 Audit Plan.
- 1.2. Development Management plays a key role in delivering the Council Plan's strategic objective to support economic growth. The service deals with the determination of all applications made under the Town & Country Planning and Listed Building and Conservation Areas Acts to timescales set out in national targets.
- 1.3. Audit testing focussed on discussions and information gathered from the Development Management Manager. All evidence has been examined and evaluated to form an opinion regarding the controls in operation over Development Management.

2. Audit Approach

2.1. Audit Objectives and Methodology

- 2.1.1. Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems. A risk based audit approach has been applied which aligns to the five key audit control objectives which are outlined in section 4; detailed findings and recommendations are reported within section 5 of this report.

2.2. Audit Scope and Limitations

- 2.2.1. The Audit Scope was agreed with management prior to the commencement of this audit review. The Client Sponsor for this review was the Jane Meek, Corporate Director of Economic Development. The agreed scope of the audit was to provide assurance over management's arrangements for governance, risk management and internal control in the following areas:
 - Administration of workload – allocation, monitoring and reporting.
 - Procedures - processing of applications.
 - Validation - checks on applications process.

3. Assurance Opinion

- 3.1. Each audit review is given an assurance opinion and these are intended to assist Members and Officers in their assessment of the overall level of control and potential impact of any identified system weaknesses. There are 4 levels of assurance opinion which may be applied. The definition for each level is explained in **Appendix A**.
- 3.2. From the areas examined and tested as part of this audit review, we consider the current controls operating within Development Management provide **Reasonable** assurance.

Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.

4. Summary of Recommendations, Audit Findings and Report Distribution

- 4.1. There are three levels of audit recommendation; the definition for each level is explained in **Appendix B**.
- 4.2. There are 4 audit recommendations arising from this audit review and these can be summarised as follows:

Control Objective	No. of recommendations		
	High	Medium	Advisory
1. Management - achievement of the organisation's strategic objectives achieved (see section 5.1)	-	2	-
2. Regulatory - compliance with laws, regulations, policies, procedures and contracts (see section 5.2)	-	1	-
3. Information - reliability and integrity of financial and operational information (see section 5.3)	-	1	-
4. Security - safeguarding of assets	-	-	-

5. Value - effectiveness and efficiency of operations and programmes	-	-	-
Total Number of Recommendations	-	4	-

4.3. **Strengths:** The following areas of good practice were identified during the course of the audit:

- Arrangements are in place to implement Planning Advisory Service (PAS) suggested improvements to the Development Management processes.
- Where risks relating to Development Management have been identified there are effective arrangements in place to manage these.
- Development Management team is part of the Cumbria Planning Training Scheme and staff attend relevant training events.

4.4. **Areas for development:** Improvements in the following areas are necessary in order to strengthen existing control arrangements:

4.4.1. *High priority issues:*

- There are no high priority issues arising.

4.4.2. *Medium priority issues:*

- There are no procedures notes in place for allocating new planning applications/enquiries and completing validation checklists. In addition there are no procedures that describe how amendments and updates to the Acolaid system are made.
- Discussions, outcomes and actions on performance activity, new or emerging legislation/regulations, and the identification of training needs are not formally documented. There is no effective arrangement in place to undertake team appraisals.
- Discussions, outcomes and actions from managers' regular review of performance reports and weekly planning lists are not formally documented.
- There is no mechanism in place to monitor and report compliance and non-compliances/deviations with the code of conduct guidance on conflicts of interest.

4.4.3. *Advisory issues:*

- There are no advisory issues arising.

Comment from the Corporate Director of Economic Development

I welcome the report and the recommendations are in the process of being implemented.

Management Action Plan

5. Matters Arising / Agreed Action Plan

5.1. **Management** - achievement of the organisation's strategic objectives.

● **Medium priority**

Audit finding	Management response
<p>5.1.1. Procedures</p> <p>The audit confirmed that new planning enquiries/applications are allocated based mainly on officers' rolling case workload, history with applicant and experience of the officers. Audit were advised that the allocation process that is followed has not been documented.</p> <p>Audit testing confirmed that there are inconsistencies in how the Planning Officers undertake and document their checks on the completed validation checklists, amendments are recorded, <i>i.e. granted extensions</i> and how updates to the Acolaid records are made, <i>i.e. when amending decision notices</i>. Audit were advised that the validation checklist procedures that are followed have not been documented.</p> <p>Recommendation 1:</p> <ol style="list-style-type: none"> Management should prepare planning application procedures/guidance for staff to follow that focus on describing how: new planning enquiries/applications should be allocated and processed, checks and validation checklists should be completed and documented, and any amendments and updates to the Acolaid system should be entered. A timescale should be set for the preparation of planning application procedures/guidance including the relevant approval arrangements. 	<p>Agreed management action:</p> <p>Agreed. Started the process on preparing procedures that focus on administration, technical and professional roles and that demonstrate clearly where pressures of resources are.</p>
<p>Risk exposure if not addressed:</p> <ul style="list-style-type: none"> Statutory and local targets are not achieved because staff involved in the allocation and administration of workload and validation checks are unclear about the expected procedures to follow. 	<p>Responsible manager for implementing: Development Management Manager</p> <p>Date to be implemented: 31st March 2017</p>

- Delays caused by outstanding notifications not being identified when the validation checklists are reviewed.
- Future queries or complaints as a result of missed notifications.

● **Medium priority**

Audit finding	Management response
<p>5.1.2. Awareness, Appraisals and Training</p> <p>Audit were advised that in recent years the national and local targets have not been shared with the Team, as they have not changed. However, Audit were advised that members of the team have recently changed and it is recognised that they have not been advised of these targets.</p> <p>Team appraisals are used to monitor the team's performance activity on national and local targets and to identify the team's training needs. Audit were advised that the current annual team appraisal is over overdue as it was last undertaken more than 12 months ago and identified team training needs have yet to be formally documented.</p> <p>The audit review confirmed that regular team meetings are held that include discussions on performance activity, new/emerging legislation/regulations and identifying training needs. Audit were advised that discussions from team meetings are not formally documented.</p>	<p>Agreed management action:</p> <p>Agreed. Changed Team meeting agenda proforma to include actions required ielocal targets etc.</p> <p>Team appraisal will be undertaken in the last quarter of 2016/17.</p>
<p>Recommendation 2:</p> <ol style="list-style-type: none"> Management should ensure that national and local targets are communicated to staff. Management should be reminded of their responsibilities to identify and progress any team training needs and to regularly undertake team appraisals. Managers should be reminded of the need to retain a record of team meetings that support discussions made regarding performance activity and training needs. Any outcomes from such discussions should be reported and escalated where appropriate and any corrective action taken should be documented. 	

Risk exposure if not addressed:

- Statutory and local targets are not achieved because staff lack the knowledge and understanding or are unaware of targets to be delivered
- There is not an effective evaluation process of the team's performance and performance issues may remain undetected.
- Decisions taken in team meetings are not actioned or tasks identified are not properly noted and assigned.
- Future challenges and disputes may arise over discussions relating to performance activity, awareness of legislation and training needs.

Responsible manager for implementing:

Development Management Manager

Date to be implemented:31st March 2017

5.2. Regulatory - compliance with laws, regulations, policies, procedures and contracts.● **Medium priority**

Audit finding	Management response
<p>5.2.1. Performance reports and weekly planning lists</p> <p>The audit confirmed that the Development Management Manager regularly reviews monthly and quarterly planning application performance reports and provides a verbal update on any exceptions ie applications delays etc. to the Directorate's Management Team meetings. The Development Management Manager also regularly reviews the weekly lists of new planning enquiries/applications to verify their accuracy and allocation to a member of the team. Audit testing confirmed that a record of such reviews, any discussions and actions taken from these is not formally documented.</p> <p>Recommendation 3:</p> <p>Managers should be reminded of the need to retain a record of discussions and outcomes from having reviewed performance reports and weekly planning lists. Any outcomes from such discussions should be reported and escalated where appropriate and any corrective action taken should be documented.</p>	<p>Agreed management action:</p> <p>File notes will be stored alongside the weekly lists and performance figures confirming they have been checked and any updates.</p>
<p>Risk exposure if not addressed:</p> <ul style="list-style-type: none"> Future challenges and disputes may arise over discussions relating to performance activity and weekly planning lists. 	<p>Responsible manager for implementing:</p> <p>Development Management Manager</p> <p>Date to be implemented:</p> <p>WC 6th February 2017</p>

5.3. Information - reliability and integrity of financial and operational information.● **Medium priority**

Audit finding	Management response
<p>5.3.1. Conflict of Interests</p> <p>The Council's Constitution includes a code of conduct for Officers which states "In order to avoid any perception of partiality, staff must not handle service requests for themselves, their relatives or friends and, if requested to do so, must pass it to a colleague." Examples of such requests include planning applications.</p> <p>Audit testing confirmed that staff who are involved in the allocation of new planning enquiries/applications and are processing planning application are aware of their responsibilities to declare and report conflicts of interest. However, there is no mechanism in place to monitor and report compliance and non-compliances/deviations with the code of conduct guidance on conflicts of interest.</p>	<p>Agreed management action:</p> <p>Agreed will review and update P1 form to record where there is/is not conflict of interests or look at alternative process to record this.</p>
<p>Recommendation 4:</p> <p>Arrangements should be introduced for monitoring and reporting compliances and non-compliances with the code of conduct guidance on conflicts of interest.</p>	
<p>Risk exposure if not addressed:</p> <ul style="list-style-type: none"> • Council's priorities are not achieved because there is no effective monitoring arrangements to evaluate compliances/non-compliances with guidance on conflicts of interest. • Non-compliances/deviations from guidance on conflicts of interest may remain undetected. 	<p>Responsible manager for implementing:</p> <p>Development Management Manager</p> <p>Date to be implemented:</p> <p>31st March 2017</p>

Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

	Definition:	Rating Reason
Substantial	There is a sound system of internal control designed to achieve the system objectives and this minimises risk.	<p>The controls tested are being consistently applied and no weaknesses were identified.</p> <p>Recommendations, if any, are of an advisory nature in context of the systems and operating controls & management of risks.</p>
Reasonable	There is a reasonable system of internal control in place which should ensure that system objectives are generally achieved, but some issues have been raised which may result in a degree of risk exposure beyond that which is considered acceptable.	<p>Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently developed.</p> <p>Recommendations are no greater than medium priority.</p>
Partial	The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses which have been identified and the level of non-compliance and / or weaknesses in the system of internal control puts the system objectives at risk.	<p>There is an unsatisfactory level of internal control in place as controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified.</p> <p>Recommendations may include high and medium priority matters for address.</p>
Limited / None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.	<p>Significant non-compliance with basic controls which leaves the system open to error and/or abuse.</p> <p>Control is generally weak/does not exist. Recommendations will include high priority matters for address. Some medium priority matters may also be present.</p>

Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are three levels of audit recommendations used; high, medium and advisory, the definitions of which are explained below.

		Definition:
High	●	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
Medium	●	Some risk exposure identified from a weakness in the system of internal control
Advisory	●	Minor risk exposure / suggested improvement to enhance the system of control

Cumbria Shared Internal Audit Service Internal Audit Report for Carlisle City Council



Audit of Rethinking Waste Project Management

Draft Report Issued: 16/02/2017

Final Report Issued: 28/02/2017

Audit Resources

Title	Name	Email	Telephone
Audit Manager	Peter Usher	Peter.usher@cumbria.gov.uk	01228 226287
Lead Auditor(s)	Paul Forster	Paul.forster@cumbria.gov.uk	01228 226265

Audit Report Distribution

For Action:	Darren Crossley, Deputy Chief Executive Colin Bowley, Neighbourhood Services and Enforcement Manager
For Information:	
Audit Committee	The Audit Committee, which is due to be held on 16 th March 2017, will receive the findings and recommendations from this audit.

Note: Audit reports should not be circulated wider than the above distribution without the consent of the Audit Manager.

Cumbria Shared Internal Audit Service



Images courtesy of Carlisle City Council except: Parks (Chinese Gardens), www.sjstudios.co.uk, Monument (Market Cross), Jason Friend, The Courts (Citadel), Jonathan Becker

Executive Summary

1. Background

- 1.1. This report summarises the findings from the audit of project management arrangements for the Rethinking Waste Project. This was a planned audit assignment which was undertaken in accordance with the 2016/17 Audit Plan.
- 1.2. Rethinking Waste is a long term Council project to improve waste collection and recycling services.

2. Audit Approach

2.1. Audit Objectives and Methodology

- 2.1.1. Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems. A risk based audit approach has been applied which aligns to the five key audit control objectives which are outlined in section 4; detailed findings and recommendations are reported within section 5 of this report.

2.2. Audit Scope and Limitation

- 2.2.1. The Audit Scope was agreed with management prior to the commencement of this audit review. The Client Sponsor for this review was Darren Crossley, Deputy Chief Executive. The agreed scope of the audit was to provide assurance over management's arrangements for governance, risk management and internal control in the following areas:
 - Project Management arrangements for the delivery of rethinking waste.
 - Management of identified project risks and associated mitigations.
 - Governance arrangements.
- 2.2.2. There were no instances whereby the audit work undertaken was impaired by the availability of information.

3. Assurance Opinion

- 3.1. Each audit review is given an assurance opinion and these are intended to assist Members and Officers in their assessment of the overall level of control and potential impact of any identified system weaknesses. There are 4 levels of assurance opinion which may be applied. The definition for each level is explained in **Appendix A**.
- 3.2. From the areas examined and tested as part of this audit review, we consider the current controls operating over the project management of Rethinking Waste, provide **Partial** assurance.

Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.

4. Summary of Recommendations, Audit Findings and Report Distribution

- 4.1. There are three levels of audit recommendation; the definition for each level is explained in **Appendix B**.
- 4.2. There are **10** audit recommendations arising from this audit review and these can be summarised as follows:

Control Objective	No. of recommendations		
	High	Medium	Advisory
1. Management - achievement of the organisation's strategic objectives achieved (see section 5.1)	3	2	-
2. Regulatory - compliance with laws, regulations, policies, procedures and contracts (see section 5.2)	2	-	-
3. Information - reliability and integrity of financial and operational information (see section 5.3)	-	2	1
Total Number of Recommendations	5	4	1

4.3. **Strengths:** The following areas of good practice were identified during the course of the audit:

- The Council has documented its approach to project management in the Project Management Handbook.
- Rethinking Waste is included as an item in the regular reports to the Corporate Programme Board.
- Members have been involved in the Rethinking Waste Project, including a Cross Party Working Group and consideration by the relevant Scrutiny Panel.

4.4. **Areas for development:** Improvements in the following areas are necessary in order to strengthen existing control arrangements:

4.4.1. *High priority issues:*

- The governance framework for the project has not been formally documented.
- The original approval for the Rethinking Waste Project is not documented.
- Operational risks are not formally recorded and monitored in a project risk register.
- Project team members have not received any training on the Council's Project Management Handbook.
- The Council's Project Management Handbook has not been followed and it is unclear how compliance is monitored.

4.4.2. *Medium priority issues:*

- A Project Initiation Document (PID) was not completed.
- Neighbourhood Services does not have a current service plan.
- Communication plan has not been fully developed.
- Key project documents are not archived.

4.4.3. *Advisory issues:*

- Recording of minutes does not follow best practice.

Comment from the Deputy Chief Executive

During the life of the Rethinking Waste Project it became clear that this transformative work was going to be largely determined via the Council's constitutional arrangements for taking key decisions. Much of the projects work has been directed towards making key decisions via the

Executive e.g. purchase of new vehicles, reduction of bring site locations, transfer of services in house. The work of the project team has been focused on making recommendations to members directly via these means and has therefore not spent additional specific time reporting to the Corporate Programme Board. This has led to some gaps emerging in the compliance of this project e.g. Project Management Handbook. However each important step in this transformation project has been documented via Executive, Scrutiny and where appropriate Council reports. It is recognised that more guidance and training is required for 'project leaders' and that clearer scoping of this work at the outset may have been helpful to those engaged in the work.

Management Action Plan

5. Matters Arising / Agreed Action Plan

5.1. Management - achievement of the organisation's strategic objectives.

● High priority

Audit finding	Management response
<p>5.1.1. Governance Arrangements</p> <p>The governance framework for the project has not been formally documented. For example:</p> <ul style="list-style-type: none"> • The Rethinking Waste Project Board terms of reference are in draft format, and the approval mechanism and responsibility for the terms of reference is unclear. • The draft terms of reference state that bi-monthly meetings will be held but no timetable for these was set or how these would co-ordinate with meetings of Corporate Programme Board or Scrutiny Panels. • It is also not clear from the draft terms of reference, what the responsibilities and accountabilities of Rethinking Waste Project Board members are. • The report to the Environment & Economy Overview and Scrutiny Panel on 28th July 2016 stated that, 'the Rethinking Waste Project Board continues to meet regularly', but had actually met only once in 2016 at that stage, with one further meeting that year in November, and not bi-monthly as per the draft terms of reference. As the Rethinking Waste Project Board has not met regularly, it is not clear how the Corporate Programme Board (which oversees all council projects) is being kept up to date with progress or who was being held accountable for operational activities. • It was stated in the Environment & Economy Overview and Scrutiny Panel meeting of 28th July 2016 that the Cross Party Working Group was convened with the single purpose of considering the proposals put forward (for Rethinking Waste). There are no terms of reference agreed for the Cross Party Working Group, so it is not clear that the Group is 	<p>Agreed management action:</p>

<p>actually convened for this purpose, what the roles, responsibilities and accountabilities of the members are, and how decisions made by the group are used to inform the project.</p>	
<p>Recommendation 1:</p> <p>Governance arrangements for projects should be clearly specified and documented and agreed in advance. These should clearly set out what each relevant group or Board is responsible for and how they relate to each other. Terms of reference for future project boards and other governance groups convened to progress project activities should include:</p> <ul style="list-style-type: none"> • Purpose of the Board/ group. • Decision making powers of the Board/group. • Membership, roles, responsibilities and accountabilities. • Relationship to other governance groups involved in the project, including delegated responsibility for decision making and/or consultative status. 	<p>This recommendation is accepted. Should Neighbourhood Services undertake a similar work programme again then additional thought would be given to establishing clearer governance arrangements.</p> <p>The work of the Rethinking Waste Project board is now an on-going work stream of Neighbourhood Services.</p>
<p>Risk exposure if not addressed:</p> <ul style="list-style-type: none"> • Failure to achieve project objectives. • Delays to project delivery. • Overlaps or gaps in governance arrangement introducing unmanaged risks and/ or inefficiency and waste of resources. 	<p>Responsible manager for implementing: Colin Bowley</p> <p>Date to be implemented: When required.</p>

● **High priority**

Audit finding	Management response
<p>5.1.2. Project Approval</p> <p>The Executive approved a full business case for the Rethinking Waste project in September 2015 but the Rethinking Waste Project Board was already meeting in 2014. We have seen a light business case for the original project but it isn't clear if, how or when this was approved.</p>	<p>Agreed management action:</p>

<p>Recommendation 2:</p> <p>Approval should be sought, agreed and documented in line with the project management handbook, prior to a project commencing.</p>	<p>In the case of the Rethinking Waste Project further consideration should have been given on the nature of the work to be undertaken and the most appropriate form of governance and management.</p>
<p>Risk exposure if not addressed:</p> <ul style="list-style-type: none"> • Overlaps or gaps in governance arrangement introducing unmanaged risks and/ or inefficiency and waste of resources. • Inappropriate use of resources to deliver projects that don't support corporate priorities or are of lower priority than other projects competing for the same resources. 	<p>Responsible manager for implementing:</p> <p>Colin Bowley</p> <p>Date to be implemented:</p> <p>Not applicable</p>

● **High priority**

Audit finding	Management response
<p>5.1.3. Project Risk Register</p> <p>Our enquiries were unable to confirm the existence of a project risk register for the Rethinking Waste Project. We found various references to some risks being managed (for example in reports to the Corporate Programme Board) but no specific project risk register that was regularly considered by the Rethinking Waste Project Board.</p> <p>The Corporate Risk Management report to the Resources Overview and Scrutiny Panel on 20th October 2016 stated that, 'Risks associated with the Rethinking Waste project are being effectively managed through a refreshed business case and project plan, and the risk will not appear on the corporate risk register.'</p> <p>Although high level project risks relating to the project have formed part of the Corporate Programme Board Update reports, it is not clear how operational risks relating to the Rethinking Waste Project have been formally recorded and managed at project level.</p>	<p>Agreed management action:</p>

Recommendation 3:

Operational risks relating to major Council projects should be formally recorded and managed in a project risk register. This should be available on project server, in line with the Council's Risk Management Policy. The project risk register should be the basis for reporting any significant risks to Corporate Programme Board and/or Scrutiny Panels.

The Rethinking Waste Project did sit on the Council's Corporate Risk Register recognising the impact this work may have on the Council. This assisted managers to focus on the key risks to the Council and address these.

The recording of project / operational risks associated with this work area was an area for improvement and will be considered in future projects.

Risk exposure if not addressed:

- Project risks are not identified, reviewed and controlled on a regular basis.
- Lack of clarity over responsibility for risk management.
- Unclear where high level risks derive for reporting to Corporate Programme Board/Scrutiny Panels.

Responsible manager for implementing:

Colin Bowley

Date to be implemented:

March 2017

● **Medium priority**

Audit finding**5.1.4. Project Initiation**

No Project Initiation Document (PID) has been completed for this project.

The Project Management Handbook states that, 'The Project Initiation Documentation (PID) is the how and when (in detail) and who of the project. It is the practical solution and contains the detail needed to run the project, providing detailed information of the who, when and how of the project.'

The PID is required to be completed at the initiation stage of the project and a proforma is provided in the Project Management Handbook for this purpose.

Management response**Agreed management action:**

<p>Recommendation 4:</p> <p>A Project Initiation Document should be completed at the initiation stage of the project, as set out in the Project Management Handbook.</p>	<p>Agreed, PID's should be completed and agreed.</p>
<p>Risk exposure if not addressed:</p> <ul style="list-style-type: none"> Detailed information of the who, when and how of the project is not documented leading to project delay and failure to achieve objectives. 	<p>Responsible manager for implementing:</p> <p>Colin Bowley</p> <p>Date to be implemented:</p> <p>As and when any similar projects are embarked upon.</p>

- **Medium priority**

Audit finding	Management response
<p>5.1.5. Service objectives and monitoring</p> <p>The Carlisle corporate “plan on a page” includes the Rethinking Waste Project but the detailed objectives for Neighbourhood Services in 2016/17, including the Rethinking Waste project, have not been documented, and are not subject to regular monitoring by management through use of key performance indicators.</p> <p>Internal Audit was informed that a plan for 2017/18 is being drafted for Neighbourhood Services, which will feed in to a service plan for the new Community Services Directorate.</p>	<p>Agreed management action:</p> <p>Agreed. The 2017/18 is currently under development.</p>
<p>Recommendation 5:</p> <p>Management should ensure that a service plan for Neighbourhood Services is prepared for 2017/18 which includes objectives/targets relating to project delivery as well as service performance indicators.</p>	
<p>Risk exposure if not addressed:</p> <ul style="list-style-type: none"> Service objectives are not achieved leading with failure to fulfil key council priorities. Project milestones are not achieved. 	<p>Responsible manager for implementing: Colin Bowley</p> <p>Date to be implemented: April 2017</p>

5.2 Regulatory - compliance with laws, regulations, policies, procedures and contracts.● **High priority**

Audit finding	Management response
<p>5.2.1 Project Management Handbook</p> <p>The Council's approach to project management is set out in the Project Management Handbook. This is a comprehensive guide, which clearly explains the project management process and includes key documentation and timelines for projects. However, there was no process to ensure that all members of the project team were aware of and comply with the project management handbook.</p> <p>The Corporate Programme Board terms of reference state that:</p> <ul style="list-style-type: none"> • It will play a key role in the monitoring of projects. • Ensure that projects are delivered to corporate best practice. • Ensure sound risk management is applied. <p>There was no evidence to show that the Council has a mechanism in place to ensure that the recognised project management practices set out in the Project Management Handbook are followed.</p>	<p>Agreed management action:</p>
<p>Recommendation 6:</p> <p>Management should ensure that relevant staff are aware of and trained in the application of the Council's Project Management Handbook.</p> <p>Recommendation 7:</p> <p>The Corporate Programme Board should develop a mechanism to monitor that all projects are delivered to corporate best practice by following the Project Management Handbook.</p>	<p>Agreed further training on the Council's Project Management Handbook will be delivered as appropriate.</p>

Risk exposure if not addressed:

- Projects do not follow corporately agreed standards leading to inconsistency and failure to achieve objectives in a planned and managed way.

Responsible manager for implementing:

Service Manager / HR Manager

Date to be implemented:

When required.

5.3 Information - reliability and integrity of financial and operational information.● **Medium priority****Audit finding****5.3.1 Communication Plan**

At the date of the audit there was no completed communication plan for the project. An incomplete proforma communication plan was provided but this needed further work. The project management handbook requires a communication plan to be produced at the initiation stage of a project as part of the PID.

A report to the Executive on 21st September 2015 which included a detailed business plan, stated that a communication plan was under development for both internal and external audiences, and that the Cross Party Working group had assisted greatly with the development of the plan and will continue to work on the communication planning during the implementation of the project.

A further report to the Environment & Economy Overview and Scrutiny Panel on 28th July 2016 stated that the views of the Cross Party Working Group and Scrutiny will form part of the communication plan.

It is unclear if the communication plan under development in September 2015, involving the Cross Party Working Group, was completed.

The minutes of the Rethinking Waste Project Board on 14th December 2016 stated that a... 'Communication plan and key messages to be developed and targeted where necessary.'

Management response

Agreed management action:

<p>Recommendation 8:</p> <p>A timetable for a communication plan should be established and this should also clarify who will be responsible for the plan and who will be consulted on its content.</p>	<p>When appropriate a new communications plan will be developed and this will clarify responsibilities.</p>
<p>Risk exposure if not addressed:</p> <ul style="list-style-type: none"> Key project messages have not been communicated to stakeholders leading to delays and loss of reputation. 	<p>Responsible manager for implementing: Colin Bowley / Sarah Irving</p> <p>Date to be implemented: When required</p>

● **Medium priority**

Audit finding	Management response
<p>5.3.2 Retention of key documents</p> <p>A number of documents relating to the project were found to be either missing or in draft format. For example:</p> <ul style="list-style-type: none"> Only seven sets of minutes for the Rethinking Waste Project Board meetings were supplied. Two of the sets of minutes were in draft format. The earliest set of minutes was dated 19.06.14 but they referenced previous Board meetings with minutes not supplied, so it is unclear when the Board began to meet. A light business case was provided in draft format. It is not dated so it is unclear when it was produced and for what purpose. Rethinking Waste Project Board terms of reference are incomplete and in draft format. There are no terms of reference for the Cross Party Working Group and only one set of meeting notes was available. There is no Project Initiation document as required by the Project Management Handbook. Only two monthly highlight reports to the Corporate Programme Board are available. <p>Retention of key documents for the project is not in line with the Corporate Records Management</p>	<p>Agreed management action:</p>

Policy.	
Recommendation 9: Key project documentation should be retained in line with the Corporate Records Management Policy.	Agreed. Key documents should be retained as per the policy.
Risk exposure if not addressed: <ul style="list-style-type: none"> Confusion over past decisions taken leads to project delays. Lessons may not be learned and mistakes repeated. 	Responsible manager for implementing: Colin Bowley Date to be implemented: When required.

● **Advisory issue**

Audit finding	Management response
5.3.3 Minutes It is not always clear from the documented minutes of Rethinking Waste Project Board meetings that action points arising are followed up satisfactorily in subsequent meetings. For example, in the minutes of 19 th June 2014, there is a specific request from the Deputy Chief Executive for dates to be added to actions but there are no dates next to actions in subsequent minutes. There is a standing item for agreeing minutes of previous meetings but the date of previous meeting is not recorded.	Agreed management action:
Recommendation 10: The recording of Rethinking Waste Project Board meetings should follow best practice including: <ul style="list-style-type: none"> Agenda should be based on main points in terms of reference. Action points allocated to individuals with dates which are reviewed for progress at subsequent meetings. Minutes of previous meetings to be dated so it is clear which meeting is being referred to. 	Agreed.

<p>Risk exposure if not addressed:</p> <ul style="list-style-type: none"> • Meetings do not address relevant points. • Lack of documented decision making/ actions assigned leads to project delays. 	<p>Responsible manager for implementing: Colin Bowley</p> <p>Date to be implemented: When required.</p>

Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

	Definition:	Rating Reason
Substantial	There is a sound system of internal control designed to achieve the system objectives and this minimises risk.	<p>The controls tested are being consistently applied and no weaknesses were identified.</p> <p>Recommendations, if any, are of an advisory nature in context of the systems and operating controls & management of risks.</p>
Reasonable	There is a reasonable system of internal control in place which should ensure that system objectives are generally achieved, but some issues have been raised which may result in a degree of risk exposure beyond that which is considered acceptable.	<p>Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently developed.</p> <p>Recommendations are no greater than medium priority.</p>
Partial	The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses which have been identified and the level of non-compliance and / or weaknesses in the system of internal control puts the system objectives at risk.	<p>There is an unsatisfactory level of internal control in place as controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified.</p> <p>Recommendations may include high and medium priority matters for address.</p>
Limited / None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.	<p>Significant non-compliance with basic controls which leaves the system open to error and/or abuse.</p> <p>Control is generally weak/does not exist. Recommendations will include high priority matters for address. Some medium priority matters may also be present.</p>

Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are three levels of audit recommendations used; high, medium and advisory, the definitions of which are explained below.

Definition:		
High	●	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
Medium	●	Some risk exposure identified from a weakness in the system of internal control
Advisory	●	Minor risk exposure / suggested improvement to enhance the system of control

Recommendation Follow Up Arrangements:

- High priority recommendations will be formally followed up by Internal Audit and reported within the defined follow up timescales. This follow up work may include additional audit verification and testing to ensure the agreed actions have been effectively implemented.
- Medium priority recommendations will be followed with the responsible officer within the defined timescales.
- Advisory issues are for management consideration.

Report to Audit Committee

Agenda
Item:

A.8

Meeting Date: 16 March 2017
Portfolio: Finance, Governance and Resources
Key Decision: No
Within Policy and Budget Framework: Yes
Public / Private: Public

Title: TREASURY MANAGEMENT OCTOBER - DECEMBER 2016
Report of: CHIEF FINANCE OFFICER
Report Number: RD56/16

Purpose / Summary:

This report, which provides the regular quarterly summary of Treasury Management transactions for the third quarter of 2016/17 was received by the Executive on 13 February 2017. The Audit Committee is invited to make any observations on treasury matters which took place during this quarter although it will be noted from the report that this was a relatively quiet period in treasury terms. The Committee is otherwise asked to note the report.

Recommendations:

That the report be noted.

Tracking

Executive:	13 February 2017
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Report to Executive

Agenda
Item:

Meeting Date: 13 February 2017
Portfolio: Finance, Governance and Resources
Key Decision: No
Within Policy and Budget Framework YES
Public / Private Public

Title: TREASURY MANAGEMENT OCTOBER - DECEMBER 2016
Report of: CHIEF FINANCE OFFICER
Report Number: RD56/16

Purpose / Summary:

This report provides the regular quarterly report on Treasury Transactions including the requirements of the Prudential Code.

Recommendations:

That this report be received and the Prudential Indicators noted as at the end of December 2016.

Tracking

Executive:	13 February 2017
Overview and Scrutiny:	n/a
Audit Committee:	16 March 2017
Council:	n/a

1. INTRODUCTION

1.1 The purpose of this report is to inform Members on various Treasury Management issues. The report is set out as follows:

- (i) **Appendix A** sets out the schedule of Treasury Transactions for the period April 2016 –December 2016
 - **Appendix A1** – Treasury Transactions April to December 2016
 - **Appendix A2** – Investment Transactions April to December 2016
 - **Appendix A3** – Outstanding Investments at December 2016
- (ii) **Appendix B** discusses the Prudential Code and Prudential Indicators for 2016/17:
 - **Appendix B1** – Prudential Code background
 - **Appendix B2** – Prudential Indicators

2. CONSULTATION

2.1 Consultation to Date.
None.

2.2 Consultation proposed.

3. CONCLUSION AND REASONS FOR RECOMMENDATIONS

3.1 That this report be received and the Prudential Indicators noted as at the end of December 2016.

4. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

4.1 To ensure that the Council's investments are in line with the appropriate policies including the Treasury Management Strategy Statement.

Contact Officer:	Steven Tickner	Ext: 7280
Appendices	Appendix A1 – Treasury Transactions April to December 2016	
attached to report:	Appendix A2 – Investment Transactions April to December 2016	
	Appendix A3 – Outstanding Investments at December 2016	
	Appendix B1 – Prudential Code background	
	Appendix B2 – Prudential Indicators	

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

- **None**

CORPORATE IMPLICATIONS/RISKS:

Economic Development – not applicable

Governance & Regulatory Services – The Council has a fiduciary duty to manage its finances properly and the proper reporting of budget monitoring is part of this process.

Community Services – not applicable

Corporate Support & Resources – Contained within the report

TREASURY TRANSACTIONS
APRIL 2016 to DECEMBER 2016

1. LOANS (DEBT)

1.1 Transactions July to December 2016

	Raised		Repaid	
	£	%	£	%
P.W.L.B	0		0	0
Local Bonds	0		0	0
Short Term Loans	0		0	0.00
Overnight Borrowing	0		0	0.00
	0		0	

This provides a summary of any loans that have been raised or repaid, analysed by type, since the previous report. New procedures have been put in place to map the cash flow more accurately to enable better forecasting and to limit the amount of short term/overnight borrowing which may be required.

1.2 Loans (Debt) Outstanding at December 2016

	£
City of Carlisle Stock Issue	15,000,000
Short Term Loans	13,300
	15,013,300

1.4 Loans Due for Repayment (Short Term)

	PWLB £	Overnight £	Total £
Short Term Debt at 31 December 2016 (These are the balances held on behalf of Carlisle Educational Charity and Mary Hannah Almshouses)	0	0	13,300
			13,300

1.5 Interest Rates

Capita are not currently forecasting an interest rate rise until Quarter 2 of 2019 with rates set to remain at 0.25% until then.

2 INVESTMENTS

	Made		Repaid	
	£	%	£	%
Short Term Investments	37,415,000	0.20-0.65	35,550,000	0.20-0.80
	37,415,000		35,550,000	

A full schedule of short term investment transactions is set out in Appendix A2. Appendix A3 shows outstanding short term investments at 31 December 2016.

Members should note that the holdings with the Lloyds/Bank of Scotland Group, as at December 2016, stands at £8million, which is in line with the Council's approved counterparty limits for government backed banks (namely the Lloyds/Bank of Scotland Group and the RBS Group); however the UK Government has been selling their holdings in the Lloyds group on a regular basis, currently standing at approximately 8% and deemed, therefore, as not having a substantial UK government backing (assumed to be 20%). Whilst recognising that the Lloyds/Bank of Scotland Group is still one of the highest UK rated institutions and the investments are secure, the rationale for having an £8million limit with the Group is no longer applicable and for this reason the Council is reducing its holdings. The counterparty limits have been revised, and set at £6million for appropriately rated UK Banks and Building Societies, within the 2017/18 Treasury Management Strategy which was considered by full Council on 7th February 2017.

3 REVENUES COLLECTED

To: 31 December 2016		Collected £	% of Amount Collectable %
2016/17	Council Tax NNDR	45,151,091 38,154,069	84.54 84.22
Total		83,305,160	84.39
2015/16	Council Tax NNDR	43,957,155 36,268,454	85.12 82.58
Total		80,225,609	83.95
2014/15	Council Tax NNDR	42,667,002 36,289,726	85.54 85.48
Total		78,956,729	85.52

4 BANK BALANCE

At 31 December 2016 £954,411.25 in hand.

This records the Council's bank balance at the end of the last day covered by the report.

5 PERFORMANCE ON TREASURY MANAGEMENT TRANSACTIONS TO DECEMBER 2016

April –December 2016

	Estimate £000	Actual £000	Variance £000
Interest Receivable	(192)	(215)	(23)
Interest Payable	850	848	(2)
Less Rechargeable	0	0	0
	850	848	(2)
Principal Repaid	673	516	(157)
Debt Management	15	12	(3)
NET BALANCE	1,346	1,161	(185)

The estimate column is the profiled budget to 31 December 2016.

Interest receivable is still exceeding budgeted projections even though average investment returns have fallen slightly against that forecast when the budget was set. This fall in returns is partly due to the reduction in bank base rates to 0.25% although investment rates have not yet seen the same 0.25% reduction. The CCLA property investment saw a decrease in the capital value earlier in the year, but has steadied since in the second and third quarters with the valuation starting to increase once again in December. Dividends remain at over 4.77%

APPENDIX A2

SHORT TERM INVESTMENT TRANSACTIONS OCTOBER TO DECEMBER 2016

INVESTMENTS MADE		INVESTMENTS REPAYD	
	£		£
HSBC	1,965,000.00	Bank of Scotland	2,000,000.00
Federated Investors	3,100,000.00	Barclays	1,000,000.00
Bank Of Scotland	2,000,000.00	Bank of Scotland	1,000,000.00
Barclays	1,000,000.00	Federated Investors	100,000.00
Federated Investors	700,000.00	Federated Investors	1,500,000.00
Bank Of Scotland	1,000,000.00	Federated Investors	700,000.00
Bank Of Scotland	1,500,000.00	Bank of Scotland	1,500,000.00
Federated Investors	2,500,000.00	Federated Investors	2,200,000.00
Standard Life	3,700,000.00	HSBC	2,905,000.00
Federated Investors	2,200,000.00	HSBC	550,000.00
Handelsbanken	1,650,000.00	HSBC	950,000.00
Nationwide	1,000,000.00	HSBC	200,000.00
Nationwide	1,000,000.00	HSBC	1,395,000.00
Barclays	1,000,000.00	Handelsbanken	1,100,000.00
Bank Of Scotland	1,000,000.00	Nationwide	1,000,000.00
Standard Life	4,000,000.00	Nationwide	1,000,000.00
Handelsbanken	2,600,000.00	Handelsbanken	150,000.00
Standard Chartered	3,500,000.00	Standard Life	3,700,000.00
Nationwide	1,000,000.00	Handelsbanken	400,000.00
Nationwide	1,000,000.00	Barclays	1,000,000.00
		Bank of Scotland	1,000,000.00
		Handelsbanken	1,400,000.00
		Standard Life	2,750,000.00
		Nationwide	1,000,000.00
		Nationwide	1,000,000.00
		Standard Life	1,250,000.00
		Handelsbanken	1,200,000.00
		Federated Investors	1,000,000.00
TOTAL	37,415,000		35,550,000
		Bfwd	23,197,659
		Paid	37,415,000
		Repaid	35,550,000
		Total	25,062,659
		CCLA Growth/(Reduction)	40,552
		Total	25,103,211

Outstanding Investments as at 31 December 2016

Category	Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Current Days to Maturity	Days to maturity at execution	Total Interest Expected (£)
Y	MMF Federated Investors	2,400,000	0.31%					0
R	Barclays Bank PLC	1,000,000	0.59%	29/06/2016	03/01/2017	3	188	3,039
R	Bank of Scotland PLC	1,000,000	0.80%	04/04/2016	04/01/2017	4	275	6,027
R	Barclays Bank PLC	1,000,000	0.51%	05/07/2016	05/01/2017	5	184	2,571
R	Bank of Scotland PLC	1,000,000	0.55%	07/10/2016	07/02/2017	38	123	1,853
G	Standard Chartered Bank	3,500,000	0.38%	16/12/2016	16/02/2017	47	62	2,259
R	Barclays Bank PLC	1,000,000	0.38%	05/10/2016	16/03/2017	75	162	1,687
R	Nationwide Building Society	1,000,000	0.27%	22/12/2016	17/03/2017	76	85	629
R	Bank of Scotland PLC	2,000,000	0.62%	03/10/2016	20/03/2017	79	168	5,707
R	Nationwide Building Society	1,000,000	0.28%	21/12/2016	21/03/2017	80	90	690
R	Bank of Scotland PLC	1,500,000	0.65%	30/09/2016	30/03/2017	89	181	4,835
R	Nationwide Building Society	1,000,000	0.33%	23/11/2016	31/03/2017	90	128	1,157
R	Bank of Scotland PLC	1,500,000	0.65%	14/10/2016	13/04/2017	103	181	4,835
R	Nationwide Building Society	1,000,000	0.42%	21/11/2016	19/05/2017	139	179	2,060
R	Bank of Scotland PLC	1,000,000	0.60%	30/11/2016	30/05/2017	150	181	2,975
R	Barclays Bank PLC	1,000,000	0.47%	28/11/2016	31/05/2017	151	184	2,369
	Total Investments	£21,900,000	0.48%			75	158	£42,695
Borrower	Current Market Value (£)	Current Yield	Start Date	Initial Investment (£)	Entry Cost (£) ¹	Initial Market Value (£)	Unrealised Growth (£)	
CCLA Property Fund	3,203,211	4.77%	31/07/2014	3,000,000	(163,104)	2,836,896	203,211	

1. Entry Costs were charged against Treasury Management Budget in 2014/15

N.B Interest is recognised in the appropriate financial year in which it is due.

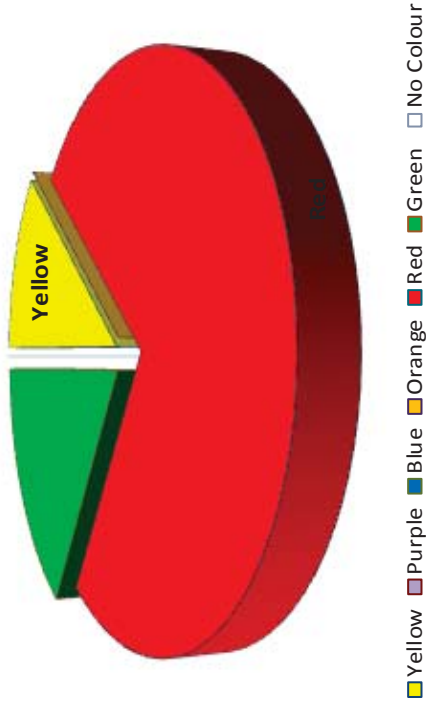
The category colour represents the duration of investment recommended by Capita Asset Services, the Council's Treasury Advisors. Those investments with No colour, are still within the Council's investment Strategy and are therefore deemed suitable for investing.

Investment Summary Sheet

		Weighted		Weighted		Weighted		Weighted		Weighted	
		Average		Average		Average		Average		Average	
		Rate of		Days to		Maturity		Maturity		from	
		Return		WAM		WAM		WAM		Execution	
		WARoR		Portfolio		Portfolio		Portfolio		Portfolio	
		Amount of		% of Call in		Amount of		% of Call in		Amount of	
		Colour in Calls		Colour in Calls		Colour in Calls		Colour in Calls		Colour in Calls	
		Amount		Amount		Amount		Amount		Amount	
		2,400,000		2,400,000		2,400,000		2,400,000		2,400,000	
		10.96%		100.00%		10.96%		100.00%		10.96%	
		0.00%		0.00%		0.00%		0.00%		0.00%	
		0.00%		0.00%		0.00%		0.00%		0.00%	
		0.00%		0.00%		0.00%		0.00%		0.00%	
		73.06%		0.00%		0.00%		0.00%		0.00%	
		15.98%		0.00%		0.00%		0.00%		0.00%	
		0.00%		0.00%		0.00%		0.00%		0.00%	
		21,900,000		23.88%		2,400,000		10.96%		0.48%	
		100.00%		100.00%		100.00%		100.00%		100.00%	
		132		75		132		75		132	

Sector's Suggested Criteria	Up to 5 Years	Up to 2 Years	Up to 1 Year	Up to 1 Year	Up to 6 months	Up to 3 months	No Colour
Y							
P							
B							
O							
R							
G							
N/C							

Portfolio Composition by Sector's Suggested Lending Criteria



		Risk Score for		Dec 16		Sep 16		Jun 16		Mar 16	
		Colour (1 = Low, 7 = High)		0.1		0.0		0.0		0.0	
		1		0.0		0.0		0.0		0.0	
		2		0.0		0.0		0.0		0.0	
		3		0.0		0.0		0.0		0.0	
		4		0.0		0.8		0.0		0.2	
		5		3.7		4.0		0.9		4	
		6		1.0		0.0		3.2		0.0	
		7		0.0		0.0		0.0		0.0	
		4.7		4.8		4.4		4.2		4.2	

Normal' Risk Score 3.5 3.5 3.5 3.5

THE PRUDENTIAL CODE AND PRUDENTIAL BORROWING

1. Introduction

- 1.1 The Local Government Act 2003 brought about a new borrowing system for local authorities known as the Prudential Code (the Code). This gives to Councils much greater freedom and flexibility to borrow without government consent so long as they can afford to repay the amount borrowed.
- 1.2 The aim of the Code is to support local authorities when making capital investment decisions. These decisions should also be in line with the objectives and priorities as set out in the Council's Corporate Plan.
- 1.3 The key objectives of the Code are to ensure, within a clear framework, that the capital investment plans of the Council are affordable, prudent and sustainable, or if appropriate, to demonstrate that they may not be. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability. These objectives are consistent with and support local strategic planning, local asset management planning and proper option appraisal. They also encourage sound treasury management decisions.

2. Prudential Indicators

- 2.1 To demonstrate that the Council has fulfilled these objectives, the Code sets out indicators that must be used. It is for the council to set any indicative limits or ratios. It is also important to note that these indicators are not designed to be comparative performance figures indicators but to support and record the Council's decision making process.
- 2.2 Appendix B2 sets out the latest performance indicators for the current year.

3. Supported and Unsupported (or Prudential) Borrowing

- 3.1 Local authorities have always funded a substantial element of their capital programme via borrowing. This continues to be the case but until the introduction of the Code any local authority borrowing was essentially based upon a government 'permission to borrow'. Differing types of government control operated over the years but since 1990 these had been termed credit approvals. The level of an authority's previous years' credit approvals is also included in the revenue support grant (RSG) allocation so that ultimately any borrowing is 'supported' via RSG.

- 3.2 This element of supported borrowing is still part of the RSG system although the City Council has previously resolved that its capital borrowing would be limited to its level of supported borrowing. In 2016/17 this is estimated to be Nil.
- 3.3 However, there may be circumstances in which the City Council will wish to undertake some prudential borrowing and the issues surrounding unsupported and supported borrowing are discussed below.
- 3.4 Authorities are permitted to borrow in excess of their supported borrowing allocation. This is referred to as prudential or unsupported borrowing. This can be undertaken so long as the Council can demonstrate that the revenue consequences of such borrowing (i.e. the cost of the debt) are sustainable, affordable and prudent in the medium to long term.

PRUDENTIAL INDICATORS

Central to the operation of the Prudential code is the compilation and monitoring of prudential indicators covering affordability, prudence, capital expenditure, and treasury management. Set out below are the indicators for 2016/17 to date as detailed in the Treasury Management Strategy Statement for 2016/17.

(a) Affordability

	2016/17 Original Estimate £	2016/17 Revised Estimate £
(i) Capital Expenditure	4,595,000	12,547,900
(ii) Financing Costs Total Financing Costs	1,736,000	1,579,000
(iii) Net Revenue Stream Funding from Govt Grants/Local Taxpayers	12,235,000	12,235,000
(iv) Ratio of Financing Costs to Net Revenue Stream The figures monitor financing costs as a proportion of the total revenue stream from government grants and local taxpayers. The increase in the ratio of financing costs is mainly attributable to the forecast reduction in investment income.	14.19%	12.91%
(v) Incremental Impact on Council Tax This indicator allows the effect of the totality of the Council's capital investment decisions to be considered at budget setting time.	20.91	16.06
(vi) Authorised Borrowing Limit Maximum Level of Borrowing and Other Long term Liabilities	37,600,000 15,013,300	37,600,000 15,013,300
The authorised borrowing limit is determined by Council prior to the start of the financial year. The limit must not be altered without agreement by Council and should not be exceeded under any foreseeable circumstances.		

	2016/17 Original Estimate £	2016/17 Revised Estimate £
(vii) Operational Borrowing Limit Maximum Level of Borrowing and Other Long term Liabilities The operational borrowing limit is also determined by Council prior to the start of the financial year. Unlike the authorised limit, it may be breached temporarily due to cashflow variations but it should not be exceeded on a regular basis.	32,600,000 15,013,300	32,600,000 15,013,300
(viii) Capital Financing Requirement (CFR) As at 31 March The CFR is a measure of the underlying borrowing requirement of the authority for capital purposes.	10,800,000	13,741,000

(b) Prudence and Sustainability

	2016/17 Original £
(i) New Borrowing to Date No Long Term Borrowing has been taken in 2016/17 to date	0
(ii) Percentage of Fixed Rate Long Term Borrowing at December 2016	100%
(iii) Percentage of Variable Rate Long Term Borrowing at December 2016 Prudent limits for both fixed and variable rate exposure have been set at 100%. This is due to the limited flexibility available to the authority in the context of its overall outstanding borrowing requirement.	0%
(iv) Minimum Level of Investments Classified as Specified Level of Specified Investments as at December 2016 As part of the Investment Strategy for 2016/17, the Council set a minimum level of 50% for its specified as opposed to non specified investments. The two categories of investment were defined as part of the Strategy but for the City Council non specified investments will presently refer mainly to either investments of over one year in duration or investments placed with building societies that do not possess an appropriate credit rating. These tend to be the smaller building societies.	50.00% 100.00%

EXCERPT FROM THE MINUTES OF THE EXECUTIVE HELD ON 13 FEBRUARY 2017

EX.19/17 TREASURY MANAGEMENT OCTOBER – DECEMBER 2016
(Non Key Decision)

Portfolio Finance, Governance and Resources

Relevant Overview and Scrutiny Panel Resources

Subject Matter

The Deputy Leader, and Finance, Governance and Resources Portfolio Holder submitted report RD.56/16 providing the regular quarterly report on Treasury Transactions, including the requirements of the Prudential Code.

Appendix A1 to the report recorded that the holdings with the Lloyds/Bank of Scotland Group, as at December 2016, stood at £8million, which was in line with the Council's approved counterparty limits for government backed banks (namely the Lloyds/Bank of Scotland Group and the RBS Group). However, the UK Government had been selling their holdings in the Lloyds group on a regular basis, currently standing at approximately 8% and deemed, therefore, as not having a substantial UK government backing (assumed to be 20%). Whilst recognising that the Lloyds/Bank of Scotland Group was still one of the highest UK rated institutions and the investments were secure, the rationale for having an £8million limit with the Group was no longer applicable and for that reason the Council was reducing its holdings. The counterparty limits had been revised, and set at £6million for appropriately rated UK Banks and Building Societies, within the 2017/18 Treasury Management Strategy which was considered by full Council on 7 February 2017.

In conclusion the Deputy Leader, and Finance, Governance and Resources Portfolio Holder moved the recommendation which was duly seconded by the Leader.

Summary of options rejected None

DECISION

That Report RD.56/16 be received and the Prudential Indicators noted as at the end of December 2016.

Reasons for Decision

To advise Members of the Council's Treasury Transactions

Report to Audit Committee

Agenda
Item:

A.9

Meeting Date: 16 March 2017
Portfolio: Finance, Governance and Resources
Key Decision: Not Applicable:
Within Policy and
Budget Framework YES
Public / Private Public

Title: AUDITED ACCOUNTS 2016/17
Report of: Chief Finance Officer
Report Number: RD62/16

Purpose / Summary:

This report has been prepared in response to the proposal to undertaken a 'dry run' in respect of the audit approach for the earlier closure of the accounts for 2016/17.

Recommendations:

The Chair or Members of the Audit Committee are requested to agree to a special meeting of the Audit Committee, in accordance with paragraph 2.6, to be held on 31st July 2017, in order to consider the External Audit Findings Report, the audited Statement of Accounts for 2016/17 and the Letter of Representation.

Tracking

Audit Committee:	16 March 2017
Overview and Scrutiny:	Not applicable
Council:	Not applicable

1. BACKGROUND

- 1.1 The Local Audit and Accountability Act 2014 received royal assent on 30th January 2014 and in order to effect many of the provisions contained in the Act, secondary legislation was also required.
- 1.2 The Accounts and Audit Regulations (England) 2015, laid before Parliament on 17th February 2015, set out the requirement to accelerate the accounts preparation timetable for the accounts being audited, approved and published from 30 September to 31 July.
- 1.3 The DCLG's intention to bring forward the date by which accounts must be published is to be effective for the 2017/18 accounts as shown in the table below:

	2016/17	2017/18
Certification of draft accounts by the chief financial officer	30 June	31 May
Approval and publication of audited accounts	30 September	31 July

2. CURRENT POSITION AND PROPOSALS

- 2.1 The City Council has been able to achieve an earlier certification of the draft accounts for both 2014/15 and 2015/16 with dates of 29th May and 7th June respectively, and the intention is to replicate this earlier closedown and certification for the 2016/17 draft accounts. Having a detailed and comprehensive closedown timetable which is adhered to by an experienced finance team, led by the Chief Accountant enables this earlier deadline to be met.
- 2.2 With regards to the approval and publication of the audited accounts, this has always been achieved in accordance with the statutory deadline of 30 September. However as discussed at the previous Audit Committee, the aim is to have a full 'dry run' for the Council and the Auditors for the 2016/17 accounts i.e. certification by 31 May and publication by 31 July. This earlier publication deadline can be achieved through working closing with the External Audit Team in agreeing interim work and by the scheduling of audit work for the final accounts process during June and July 2017. This will be two months ahead of the statutory timetable and will be in advance of the significant change in the timing of the audit.

2.3 As a result of this earlier closedown, there will be requirement to set up a special meeting of the Audit Committee, in order to consider the following:

- Audit Findings Report 2016/17
- Statement of Accounts (audited) 2016/17
- Letter of Representation 2016/17

2.4 It is therefore proposed that a meeting is scheduled for Monday 31st July to consider these reports which will conclude the Audit Committee's involvement in the 2016/17 Accounts process.

2.5 In accordance with the Terms of Reference for the Audit Committee, the committee *'will meet at least four times a year in accordance with the schedule of meetings agreed by the Council. The External Auditor or the Audit Services Manager may request a meeting if they consider it necessary and other special meetings may be called in accordance with the Council's Procedure Rules.'*

2.6 There are currently four scheduled meetings for the Audit Committee in 2017/18 and as detailed above; a special meeting can be called if required. Section 3.3 of the Council's Procedure Rules state:

The chairman of a committee, sub-committee, panel or working group or the chairman of the Council may call a special meeting of a committee, sub-committee panel or working group at any time. A special meeting shall also be called on the requisition of a quarter of the whole number of the relevant body delivered in writing to the Corporate Director of Governance and Regulatory Services but in no case shall less than three members requisition a special meeting. The summons to the special meeting shall set out the business to be considered thereat, and no business other than that set out in the summons shall be considered at the meeting.

3. CONCLUSION AND REASONS FOR RECOMMENDATIONS

3.1 To enable the certification and publication of the 2016/17 Statement of Accounts thus facilitating a full 'dry run' for the earlier closure of the accounts.

4. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

4.1 To ensure that the Council has the necessary governance arrangements in place to comply with statutory requirements.

Contact Officer: Alison Taylor

Ext: 7290

**Appendices
attached to report:**

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

CORPORATE IMPLICATIONS/RISKS:

Economic Development – not applicable

Governance & Regulatory Services – contained within the report

Community Services – not applicable

Corporate Support & Resources – contained within the report

EXCERPT FROM THE MINUTES OF THE EXECUTIVE HELD ON 13 FEBRUARY 2017

EX.20/17 REFERENCE FROM THE AUDIT COMMITTEE (Non Key Decision)

Portfolio Finance, Governance and Resources

Relevant Overview and Scrutiny Panel Resources

Subject Matter

There was submitted excerpt from the Minutes of the Audit Committee on 22 December 2016 (AUC.75/16) following the Committee's consideration of the Audit of Carlisle Enterprise Centre.

The Audit Committee had resolved:

“(2)(d) That the Executive be advised that the Audit Committee was reassured by the overview provided.”

The Leader reported that the Chairman of the Audit Committee had been invited to attend the meeting today, but was unable to do.

The Deputy Leader, and Finance, Governance and Resources Portfolio Holder provided a brief summary of the background to the Audit Review, and thanked Members of the Audit Committee for their consideration of the matter. He added that the Executive noted the recommendation as detailed above.

Summary of options rejected None

DECISION

That the Executive thanked the Audit Committee for their consideration of the Audit of Carlisle Enterprise Centre; noting that the Committee was reassured by the overview provided.

Reasons for Decision

To respond to a reference from the Audit Committee

