

MINUTES OF PREVIOUS MEETINGS
AUDIT COMMITTEE

MONDAY 9 JULY 2018 AT 10.00 AM

PRESENT: Councillors Bainbridge, Bomford, Carrigan, Layden (as substitute for Councillor Higgs), Mrs Mallinson, Patrick and Sidgwick (S)

OFFICERS: Corporate Director of Governance and Regulatory Services
Chief Finance Officer
Deputy Chief Finance Officer and Designated Head of Internal Audit
Principal Auditor
Policy and Communications Manager
Information Governance Manager

ALSO

PRESENT: Associate Director (Grant Thornton) (until 10.38 am)
Engagement Manager (Grant Thornton) (until 10.38 am)
Deputy Leader, and Finance, Governance and Resources Portfolio Holder (until 11.14 am)

AUC.26/18 APPOINTMENT OF CHAIRMAN

The Corporate Director of Governance and Regulatory Services welcomed all those present to the first meeting of the Audit Committee in the current Municipal Year. He indicated that the first item of business was to appoint a Chairman of the Committee for the 2018/19 Municipal Year and sought nominations in respect thereof.

Councillor Mrs Mallinson moved and Councillor Bainbridge seconded that Councillor Bomford be appointed Chairman of the Audit Committee for the 2018/19 Municipal Year.

Councillor Sidgwick (S) moved and Councillor Carrigan seconded that Councillor Patrick be appointed Chairman of the Audit Committee for the 2018/19 Municipal Year.

Following voting, it was:

RESOLVED – That Councillor Bomford be appointed Chairman of the Audit Committee for the 2018/19 Municipal Year.

Councillor Bomford thereupon took the Chair.

AUC.27/18 APPOINTMENT OF VICE-CHAIRMAN

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

Councillor Bainbridge moved and Councillor Layden seconded that Councillor Mrs Mallinson be appointed Vice-Chairman of the Audit Committee for the 2018/19 Municipal Year.

Councillor Sidgwick (S) moved and Councillor Carrigan seconded that Councillor Patrick be appointed Vice-Chairman of the Audit Committee for the 2018/19 Municipal Year.

Following voting, it was:

RESOLVED – That Councillor Mrs Mallinson be appointed Vice-Chairman of the Audit Committee for the Municipal Year 2018/19.

Discussion ensued, with input from the Deputy Leader, and Finance, Governance and Resources Portfolio Holder and certain Members of the Committee, during which the importance of the impartiality of the Chairman was emphasised.

Councillor Sidgwick (S) expressed thanks and appreciation to Councillor Patrick for the manner in which she had chaired the Committee over recent years.

AUC.28/18 APOLOGY FOR ABSENCE

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

AUC.29/18 DECLARATIONS OF INTEREST

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

AUC.30/18 PUBLIC AND PRESS

RESOLVED – That the Agenda be agreed as circulated.

AUC.31/18 MINUTES OF PREVIOUS MEETING

RESOLVED – To note that Council, on 24 April 2018, received and adopted the minutes of the Audit Committee meeting held on 19 March 2018. The minutes were signed by the Chairman.

AUC.32/18 MINUTES OF BUSINESS AND TRANSFORMATION SCRUTINY PANEL

The Minutes of the meetings of the Business and Transformation Scrutiny Panel held on 22 March and 31 May 2018 were submitted for information.

RESOLVED – That the Minutes of the meetings of the Business and Transformation Scrutiny Panel held on 22 March and 31 May 2018 be noted and received.

AUC.33/18 AUDIT FEE LETTER 2018/19

The Associate Director (Grant Thornton) presented the Audit fee letter for 2018/19, informing Members that the Public Sector Audit Appointments Limited (PSAA) published the 2018/19 scale fees for opted-in bodies in March 2018, following a consultation process. He was pleased to report that individual scale fees had been reduced by 23% from the fees applicable for 2017/18; the City Council's scale fee for 2018/19 having been set at £41,033.

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

The letter further recorded that from 2018/19 all grant work, including housing benefit certification, now fell outside the PSAA contract, as PSAA no longer had the power to make appointments for assurance on grant claims and returns. Any assurance engagements would therefore be subject to separate engagements agreed between the grant-paying body, the Council and Grant Thornton, and separate fees agreed with the Council.

Whilst the reduction in fees was welcomed, a Member emphasised that quality of work was a main driver for the Audit Committee. She questioned whether, as resources reduced, the Associate Director felt that the necessary level of resources remained in place to complete audit work.

The Associate Director (Grant Thornton) complemented the Member on what was a very good question. He stated that the Member was correct in that Grant Thornton placed great importance upon quality. An interim quality review was undertaken last year with pleasing results; and quality standards would be maintained moving forward. He added that the Committee could take some assurance from the fact that the same Audit Team remained in place.

Consideration was further being given to the manner by which the audit could be undertaken most efficiently; a new methodology would be put in place in 2018/19 to assist Grant Thornton in their work and to give the Committee the necessary assurance around quality standards moving forward.

RESOLVED – That the Audit Committee noted and received the Audit Fee Letter for 2018/19.

AUC.34/18 ANNUAL GOVERNANCE STATEMENT 2017/18

The Chief Finance Officer submitted report RD.07/18 providing the City Council's Annual Governance Statement for 2017/18. The Annual Governance Statement (subject to Audit) had been certified by the Chief Executive, the Leader and herself (in her capacity as Council's S151 Officer), in accordance with statutory requirements, by 31 May 2018 and would be formally approved following completion of the audit process.

The Chief Finance Officer advised that there were no areas of significant weakness which needed to be brought to Members' attention at this time. Arrangements in relation to Records Management (which had previously been identified as a weakness) had now been addressed and had been reported to the Audit Committee throughout the year.

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 2018 was recorded elsewhere on the agenda (Internal Audit Annual Report).

In terms of the requirements of the updated Good Governance Framework, the Council's Local Code of Corporate Governance had been updated in line with those principles and was approved by the Audit Committee on 27 September 2017. The Good Governance Principles were updated annually to support the Annual Governance Statement and were available upon request if required.

A Member welcomed submission of the Annual Governance Statement, commenting that it was fantastic to see how the Council delivered priorities for the people of Carlisle.

The Member drew attention to page 57 of the document pack which recorded that "The Council has a duty to comply with the key principles contained within the 2010 CIPFA statement of the 'Role of the Head of Internal Audit' and during 2016/17 the Council continued to comply with 5 key principles of the CIPFA statement." The report did not, however, record that the Council had complied with those key principles for 2017/18.

In response, the Chief Finance Officer confirmed that "2016/17" should in fact have read "2017/18", and that would be amended.

Another Member questioned, for clarity, whether the Committee should note the Annual Governance Statement, subject to consideration of the Audit follow up of Records Management later in the meeting.

The Chief Finance Officer was in agreement with that course of action.

The Chairman also welcomed the presentation style of the report which aided readability.

RESOLVED – That the Audit Committee noted the content of the 2017/18 Annual Governance Statement (subject to consideration of the Audit follow up of Records Management later on the Agenda), noting that the Statement would accompany the Annual Statement of Accounts following the audit process.

AUC.35/18 STATEMENT OF ACCOUNTS 2017/18

The Deputy Chief Finance Officer presented report RD.08/18 enclosing the Council's Statement of Accounts 2017/18 (subject to audit) which had been certified by the S.151 Officer in accordance with statutory requirements by 31 May 2018. They would now be subject to audit, which must be concluded by the statutory deadline of 31 July 2018.

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

As part of the Council's training programme, training sessions for Members and substitutes of the Audit Committee on the Role of the Audit Committee and scrutiny of the Statement of Accounts process including the Annual Governance Statement had taken place on 21 June and 27 June 2018. Key issues and the practical implications for scrutinising the Statement of Accounts were provided.

The Annual Governance Statement would accompany the Annual Statement of Accounts following the audit process and was included elsewhere on the agenda for consideration. It was a requirement of the 2017 Code that the Annual Governance Statement be considered and approved separately. The Statement of Accounts 2017/18 (subject to audit) was attached at Appendix 2.

Referencing paragraph 3.3, the Deputy Chief Finance Officer summarised the key issues within the Statement of Accounts to which Members' attention was drawn. In particular, he highlighted the items of note relative to the cost of services; the balance sheet; long term assets; current assets; current liabilities; long term liabilities; and the Collection Fund, and provided an explanation on each aspect.

A Member commented upon the dynamic changes made to the Narrative Report, which constituted a good improvement. The inclusion of key risks, which gave the reader a more holistic overview, was particularly pleasing. She also welcomed the more detailed information provided as regards performance indicators.

The Member highlighted the significant issue around the economic climate (page 84) which did not appear to read correctly.

The Deputy Chief Finance Officer replied that the Engagement Manager (Grant Thornton) had already picked up on that point, which would be amended in the final Statement of Accounts.

The Member then asked that the Deputy Chief Finance Officer provide an overview of the critical judgements which had to be made in applying accounting policies.

In response, the Deputy Chief Finance Officer stated that the main judgement related to the high degree of uncertainty around future levels of funding for local government (Section 4.2 referred).

Referring to page 80 of the document pack, the Member questioned whether the underspend of £0.664 million earmarked for carry forward into future years was related to the former Central Plaza Hotel, and whether that building would impact upon the Council's reserves.

The Deputy Chief Finance Officer advised that the £0.644 million was not related to the former Central Plaza Hotel. A report (seeking approval for the use of General Fund Reserve) had been considered by the Executive on 30 May 2018 and was scheduled for consideration by the City Council on 17 July 2018 (ED.23/18).

Another Member echoed the sentiments expressed regarding the presentation of the report and thanked those Officers involved for their work.

A Member sought clarification of the position regarding the pensions liability (page 116 referred).

The Deputy Chief Finance Officer confirmed that the pension fund was revalued every three years, the next review being due in 2020. Consideration would be given to the factors which affected the fund and potential refinancing thereof.

The Chief Finance Officer added that Cumbria County Council was the administering body and, as such, set the deficit recovery period. The City Council could, however, make a decision to reduce this recovery period depending upon financial circumstances.

RESOLVED – That the Audit Committee:

- (1) Noted the 2017/18 Statement of Accounts, which had been certified as giving a true and fair view by the Chief Finance Officer, and would now be subject to audit.
- (2) Noted that the Annual Governance Statement would be considered and approved separately from the Statement of Accounts as specified in the Accounts and Audit Regulations 2015.

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

(a) Provisional General Fund Revenue Outturn 2017/18

Report RD.03/18 summarising the provisional outturn for the General Fund Revenue Budget and providing reasons for variances. The outturn position showed a net underspend of £1,539,526 for Council Services as at 31 March 2018. Requests had been made to carry forward committed expenditure of £663,800 and net transfers to reserves of £1,276,247 which, if approved, would result in an overspend of £400,521; however additional funding from Business Rates income of £1,336,000 had also been realised.

The Executive and the Business and Transformation Scrutiny Panel had considered the matter on 30 May and 31 May 2018 respectively and the decisions were set out in Minutes EX.38/18 and BTSP.41/18(a).

(b) Provisional Capital Outturn 2017/18 and Revised Capital Programme 2018/19

Report RD.04/18 summarising the 2017/18 provisional outturn for the capital budget and providing details of the revised capital programme for 2018/19. The out-turn showed that the net overspend for Council Services as at 31 March 2018 once committed expenditure totalling £2,091,900 was taken into account was £43,196.

The Executive and the Business and Transformation Scrutiny Panel had considered the matter on 30 May and 31 May 2018 respectively and the decisions were set out in Minutes EX.39/18 and BTSP.41/18(b).

RESOLVED – That Reports RD.03/18 and RD.04/18, together with the references from the Executive, and Business and Transformation Scrutiny Panel, be noted.

AUC.36/18 TREASURY MANAGEMENT OUTTURN 2017/18

The Deputy Chief Finance Officer submitted the Annual Report on Treasury Management (RD.05/18), 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 2018 - 31 March 2018 was also submitted.

The Deputy Chief Finance Officer highlighted, in particular:

- That the financial year began with bank rate at 0.25%, which had increased to 0.50% in November 2017 and remained at that level for the remainder of 2017/18
- Investment income in 2017/18 at £223,670 was below the original estimate of £262,400 (paragraph 6.4 referred)
- the good performance of the CCLA Property Fund
- the various performance statistics included within the report

The Executive and the Business and Transformation Scrutiny Panel had considered the matter on 30 May and 31 May 2018 respectively and the decisions were set out in Minutes EX.40/18 and BTSP.41/18(c).

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

- The colour coding used on page 260/261 of the document pack represented the duration of investment recommended by Link Asset Services, the Council's Treasury Management Advisors
- Officers gave consideration to cash requirements and tried to achieve best return for the authority
- The outlook for interest rates in the UK remained uncertain, however, there was a general expectation that bank base rates would start to rise again during 2018.

A Member was pleased to see that the Property Fund was performing so well, commenting upon the prudent decision to invest therein. She further commended the Financial Services Team for their work over the year.

RESOLVED – That Report RD.05/18 be noted and received.

The Associate Director and the Engagement Manager (Grant Thornton)
retired from the meeting

AUC.37/18 INTERNAL AUDIT PROGRESS FINAL 2017/18

The Principal Auditor submitted report RD.09/18 providing an overview of the work carried out by Internal Audit since the previous Audit Committee (19 March 2018) to the end of the 2017/18 financial year.

There were four full audit reviews and three follow up reviews for consideration by Members: Audit of Payroll including Salary Sacrifice Schemes; Audit of Income Management and Cash Collection; Audit of Debtors; Audit of Business Continuity Planning; Audit follow up of Performance Management; Audit follow up of Physical Security of Premises; and Audit follow up of Building Maintenance.

The Internal Audit resource had also been utilised to perform a brief review of the Council's use and administration of the Supporting People Grant received from Cumbria County Council. The grant was found to be appropriately utilised and relevant obligations were being met by the Council.

In terms of risks, the Principal Auditor reported that findings from the individual audits would be used to update risk scores within the audit universe. All audit recommendations would be retained on the register of outstanding recommendations until Internal Audit was satisfied that the specific risk exposure was being managed.

The Principal Auditor then outlined each of the above mentioned audits in turn highlighting, in particular, the key points and associated recommendations.

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

Audit of Payroll including Salary Sacrifice Schemes (Substantial Assurance Opinion)

- *A Member noted the confirmation provided by the Principal Auditor that recommendation 2 (the personal data currently stored in an unsecure filing cabinet should be held securely and locked away when the office is empty) had been actioned, and questioned whether that had been addressed across the authority.*
- *Another Member expressed surprise at the 31 March 2019 implementation deadline for that recommendation.*

The Principal Auditor reiterated that the audit review related specifically to Payroll and that the recommendation had now been achieved.

Audit of Income Management and Cash Collection (Reasonable Assurance Opinion)

- *The audit scope referenced the need to comply with legislation, including Payment Card Industry (PCI) security standards. Were revisions necessary for contactless payments?*

The Designated Head of Internal Audit explained that, for payment cards, Civica hosted on the Council's behalf and systems were in place to ensure compliance with security standards. Civica had provided assurance that they were storing information securely.

- *Recommendation 4 (Management should ensure that an additional set of safe keys for the safe within the strong room are obtained and retained in a secure location). Had a set of keys gone missing and, if so, should consideration be given to changing the locks?*

The Chief Finance Officer appraised Members of the background position, confirming that spare keys had been obtained and were located in a secure environment.

Audit of Debtors (Reasonable Assurance Opinion)

- *Recommendation 2 (Management should develop performance indicators to measure the performance of the debtors function) was to be welcomed.*
- *The changes to Universal Credit would have an impact. Had that been taken into account as part of recommendation 4 (... Access to personal information should be suitably restricted and records that are no longer required (in line with retention policies) should be confidentially destroyed)?*

The Principal Auditor replied that information would be retained within the Revenues Department, which had security checks in place.

- *The Audit demonstrated the benefits of undertaking audit reviews; some of the recommendations being pertinent across the authority. Other departments should take notice thereof.*
- *Although it was accepted that access to both the building and offices was restricted, this was the second audit which had identified the retention of paperwork in unlocked filing cabinets. Was this an issue across the Council?*

A Member suggested that a recommendation be made to senior management that lockable cabinets were put in place prior to audit reviews being undertaken.

In response, the Principal Auditor advised that an Information Governance Manager had now been appointed and Internal Audit would be working closely with the officer. Every audit would look in detail at information management.

The Corporate Director of Governance and Regulatory Services indicated that a structure of enabling / empowering staff was in place within the authority. Managers were being trained in GDPR and document security was only one aspect of the requirements. They were responsible in their own work area.

A Member welcomed the appointment of the Information Governance Manager whose roll would be to provide advice on GDPR compliance.

The Chief Finance Officer added that a general e-mail could be circulated to all staff by way of a reminder regarding the secure storage of information, which course of action was welcomed.

Audit of Business Continuity Planning (Reasonable Assurance Opinion)

- *A Member welcomed the further work planned to develop business continuity procedures, together with the establishment of a Cumbria-wide resilience group. She considered it to be of critical importance that cyber security was addressed in Cumbria.*
- *How many Critical Service Recovery Plans (CSRP) were in place within the authority?*

The Policy and Communications Manager stated that approximately 19 CSRs were now in place. A county-wide exercise on pandemic flu had just been completed. The learning therefrom would be used in order that the benchmark of 'critical' was the same across the board.

Audit follow up of Performance Management (Substantial Assurance Opinion)

- *Since the last audit significant progress had been made in all areas of performance management. A Member acknowledged the hard work undertaken by the Policy and Communications Manager which had resulted in the positive and substantial assurance opinion now being reported.*

Audit follow up of Physical Security of Buildings (Substantial Assurance Opinion)

- *A Member requested that the good work undertaken in achieving a substantial assurance opinion be noted.*
- *The audit findings summary recorded that "There has been regular communications to staff during the year regarding building security and signage has been introduced to reinforce this message."*

The Corporate Director of Governance and Regulatory Services explained the background to the original audit of Physical Security of Premises, which was a planned audit assignment undertaken in accordance with the 2016/17 audit plan.

In response to a question, the Corporate Director further informed Members that safeguards would be built into the contract for the ground floor flood reinstatement works, and that the new signage emanated from meetings with Cumbria Constabulary's Anti-terrorism advisor.

Audit follow up of Building Maintenance (Reasonable Assurance Opinion)

The Corporate Director of Governance and Regulatory Services reiterated his thanks to the Audit Team for a helpful and co-operative piece of work in that area which had led to some good improvements.

- *A Member noted that one of the recommendations within the original Management Action Plan was that management should ensure that appropriate arrangements were established to plan, record and monitor property condition surveys. He sought clarification as regards the process for buildings not owned by the City Council e.g. the former Central Plaza Hotel.*

The Corporate Director of Governance and Regulatory Services replied that, although the City Council had a statutory obligation in terms of public safety for the former Central Plaza Hotel, the authority did not monitor other people's premises, that being their responsibility.

RESOLVED – That the Audit Committee:

- (1) Noted the progress on the 2017/18 Audit Plan as detailed in Report RD.09/18.
- (2) Received the final audit reports as outlined in paragraph 2.1, subject to the following:

Audit of Debtors

The Chief Finance Officer be requested to arrange for the circulation of a general e-mail to all staff providing guidance on the secure storage of information.

Audit follow up of Performance Management

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

Audit of Physical Security of Premises

The good work in achieving a substantial assurance opinion was noted by the Committee.

AUC.38/18 INTERNAL AUDIT ANNUAL REPORT 2017/18

The Designated Head of Internal Audit submitted report RD.11/18, the purpose of which was to give his opinion 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 2018.

The Designated Head of Internal Audit's opinion was that, based on the completed audit work, Carlisle City Council's overall framework of governance, risk and internal control was reasonable and audit testing had confirmed that controls were generally working effectively in practice. He could confirm that Internal Audit had maintained its independence during the year.

In his dual role as Deputy Chief Finance Officer and Designated Head of Internal Audit, he could further confirm that his independence and that of Internal Audit had not been in any way diminished by that working arrangement (the recent External Quality Assessment confirmed that suitable arrangements were in place to maintain audit independence).

The Designated Head of Internal Audit summarised the position following changes to the Internal Audit Plan approved by the Committee during the year; there were 24 risk-based audits in the revised 2017/18 plan all of which had been completed. It was his opinion therefore that sufficient audits had been completed such that he could provide an overall audit opinion. Details of the overall / other assurances were recorded at paragraphs 2.9 and 2.10, with the audit work completed over the year being provided at Appendix A.

The Designated Head of Internal Audit also explained that the risk based approach was designed to ensure that all internal audit work was conducted in accordance with the Public Sector Internal Audit Standards. All audit work had been conducted in line with the agreed audit methodology and had been subject to Quality Assurance checks by internal audit management.

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

The Internal Audit team was subject to an external quality assessment of their compliance with the Public Sector Internal Audit Standards in April 2018 (in relation to the process adopted for 2017/18). The assessment found that the department conformed with all the standards.

Information on risk management was also provided at Section 3 of the report.

Members commented upon the good, clear and concise nature of the report. The use of colour coded charts was particularly welcomed.

RESOLVED – That the Audit Committee noted:

- (i) The progress achieved in 2017/18 in delivering the Audit Plan and the outcomes of completed audit reviews as set out at Appendix A to report RD.11/18;
- (ii) The Designated Head of Internal Audit's opinion of reasonable assurance on the Council's overall systems of governance, risk management and internal control for the year ended 31 March 2018;
- (iii) The Designated Head of Internal Audit's declaration of Internal Audit's independence as required by the mandatory PSIAS;
- (iv) The Designated Head of Internal Audit's declaration of conformance with the mandatory PSIAS;
- (v) The performance of the Internal Audit service as shown at Appendix B.

AUC.39/18 INTERNAL AUDIT PROGRESS QUARTER 1 – 2018/19

The Principal Auditor submitted report RD.10/18 providing an overview of the work carried out by Internal Audit in the first quarter of 2018/19.

Details of progress against the 2018/19 Audit Plan were as shown at Appendix 1. Slightly over a quarter of the planned reviews had been either completed or were currently in progress. That was in line with expectations at this stage of the financial year.

The Principal Auditor advised that two follow up audit reviews had been completed in the first quarter, namely: Records Management and Corporate Charge Card.

The Internal Audit resource was also utilised on the following during Q1:

- A review and update of the audit manual and template documents.
- Internal Control Questionnaires issued to managers responsible for main financial systems not audited in 2017/18 to obtain assurances that suitable controls were in place. No concerns had arisen from the returned responses.
- Grant claim audit of the Growth Deal grant paid by Cumbria County Council. No concerns were identified by the review.
- Facilitation of CIPFA's External Quality Assessment of Internal Audit.

To provide an effective Internal Audit service, there needed to be an effective measure of the performance it achieved. It was proposed to set the indicators identified at paragraph 3.1 for 2018/19. Attention was further drawn to the amendments made to the indicators from 2017/18 identified at paragraph 3.2.

The Principal Auditor informed Members that Internal Audit had reviewed the definitions currently being used for assurance levels and made some minor amendments. Revised definitions were detailed at Appendix 2.

The only significant amendment was to recognise that reasonable assurances could be provided if high graded recommendations were restricted to a limited area of an otherwise reasonably well-established control framework.

Appendix 3 showed a summary position of outstanding audit recommendations and progress made against implementation thereof. Once the agreed implementation date had passed, internal audit would ask the responsible officer for an update of progress. The responses would then be reported to the next available Audit Committee meeting and, if implemented, will be removed from the list so that only outstanding recommendations remained. Where the recommendations related to a partial assurance audit, those would be subject to a formal follow up and would be reported back to Audit Committee separately. New recommendations would be added to the list once final reports were agreed.

The following should be noted:

- 24 recommendations were found to have been fully implemented and were now closed.
- 4 recommendations were found to have been partly implemented and had been replaced by a revised recommendation.
- 1 recommendation had not been implemented and a revised timescale for completion had been proposed.

A Member referenced the change in the control environment in terms of the changed assurance levels, emphasising that it was important that the Audit Committee acknowledged the change and the flexibility it allowed.

The Principal Auditor then outlined the above mentioned follow-up audits in turn highlighting, in particular, the key points and associated recommendations.

Audit follow up of Records Management (Reasonable Assurance Opinion)

The Corporate Director of Governance and Regulatory Services introduced the Information Governance Manager who was a welcome addition to the authority.

- *A Member recognised the significant improvement which had taken place during the last twelve month period and that the weakness in Records Management had been addressed. She stated that the Committee's satisfaction should be formally placed on record.*
- *Training for Members on the Information Governance Policy may be beneficial.*

The Corporate Director of Governance and Regulatory Services advised that the Information Governance Policy was scheduled for submission to the Audit Committee in September 2018. It may therefore be possible to arrange training for Members immediately prior to that meeting.

- *Having given consideration to the audit follow-up of Records Management, the Committee confirmed that they were now content with the Annual Governance Statement 2017/18*

Audit follow up of Corporate Charge Card (Reasonable Assurance Opinion)

- *The Audit findings summary recorded that audit testing had still identified examples where the corporate charge cards were being used by individuals other than the named card-holder. Was that within the authority?*

Another Member commented upon the importance of the necessary checks and balances being put in place to guard against fraud.

The Principal Auditor confirmed that the issue was around a colleague allowing another colleague to use their card. All purchases were, however, now being made on secure websites.

RESOLVED – That the Audit Committee:

1. Noted the progress against the Audit Plan for 2018/19 set out within Report RD.10/18.
2. Received the final audit reports as outlined in paragraph 2.2, subject to:
 - (a) The Committee wished to place on record their satisfaction that the significant weakness in Records Management had now been addressed;
 - (b) Having given consideration to the Audit follow-up of Records Management, the Committee was content with the Annual Governance Statement 2017/18 (Minute AUC.34/18 referred)
3. Noted the revised assurance level definitions outlined in Appendix 2.
4. Noted the progress made on audit recommendations to date outlined in Appendix 3.

AUC.40/18 EXTERNAL QUALITY ASSESSMENT OF INTERNAL AUDIT

The Designated Head of Internal Audit reported (RD.12/18) that the Audit Committee had requested that a review be undertaken on the provision of the Internal Audit Service from April 2017 following the termination of the Audit Shared Service arrangements. Following a procurement exercise the City Council appointed CIPFA to carry out a review in 2018. A preliminary readiness review was carried out in January 2018 and the full review was completed in April 2018, including discussions with Council Officers and the Chair of the Audit Committee.

The full report was provided at Appendix 1.

The Designated Head of Internal Audit explained that the External Audit Assessment included an overall assessment of Internal Audit's compliance with the Internal Audit Standards, applying one of three categories: Generally Conforms; Partially Conforms; Does Not Conform. The overall assessment was based on individual assessments against each standard, using the same criteria.

It was extremely pleasing that Internal Audit (a new / small team) had achieved an overall assessment of "generally conforms", having attained that assessment against each individual standard.

The Principal Auditor informed Members that three recommendations had been made to improve adherence to the standards and seven suggestions to enhance and develop operations. An action plan had been completed to address those. Progress against the action plan would be reported at future audit committees as part of internal audit's quarterly updates.

The report was very positive about the Internal Audit Department's approach and position within the organisation and had been well received by the Internal Audit team.

The following points were raised in discussion:

- A Member commented upon what was a wonderful report and congratulated the members of staff involved for what was a remarkable achievement.

Suggestion 2 – it was suggested that the Designated Head of Internal Audit establishes a formal quality assurance process that included reviewing a sample of completed audits for conformity to the PSIAS and the Service’s audit procedures. The Member asked whether the Committee would have sight thereof for transparency purposes.

In response, the Designated Head of Internal Audit confirmed that he had reviewed files throughout the year on occasions when the Principal Auditor was unable to act, and the information alluded to would be included in his final report at the year end.

- Another Member echoed the comments made and, in so doing, highlighted the improvements to the layout of the report. She felt that audit mapping was really positive.

The Member further referred to the procurement of IT Audit Services and the intention that the cyber security post within the Council would be filled prior to the process for the Internal Audit service.

The Principal Auditor confirmed that was his original intention, but as the post had not been filled he would progress the procurement of IT Audit work independently.

The Chairman echoed Members’ comments on the performance of Internal Audit and looked forward to a fantastic future for the service.

RESOLVED – That the Audit Committee noted the content, outcome and agreed actions specified in Report RD.12/18 (Appendix 1).

AUC.41/18 CORPORATE RISK MANAGEMENT

The Corporate Director of Governance and Regulatory Service reported (CS.29/18) that the Business and Transformation Scrutiny Panel had, on 22 March 2018, considered Report CS.19/18 providing an update on the Council’s risk management arrangements. The Panel had resolved:

“1) That the Corporate Risk Register be welcomed (CS.19/18).

2) That the Business Continuity Plan be added to the Panel’s 2018/19 Work Programme along with some training on the matter.”

Members were reminded that the Corporate Risk Management Group (CRMG) was responsible for delivering and reviewing the Risk Management Strategy, maintaining and improving risk management processes as well as the Council’s Corporate Risk Register.

The City Council’s Risk Management Policy and Risk Management Strategy were under review. That work should be complete by July 2018 and an update would be brought to a future meeting of the Audit Committee for consideration by Members.

In response to questions, the Chief Finance Officer advised that:

- It was anticipated that the Risk Management Policy would be submitted to Committee by the end of September 2018.
- An appointment had been made, through Local Government Futures, as part of the potential local government funding pilot for 2019/20 in addition to which regular county-wide meetings took place, the aim of which was to secure as much business rate retention as possible in the County.

RESOLVED – That the Audit Committee noted the content of Report CS.29/18 as evidence of the continuing commitment to sound governance arrangements for corporate risk management.

[The meeting ended at 11.44 am]

AUDIT COMMITTEE

MONDAY 30 JULY 2018 AT 10.00 AM

PRESENT: Councillor Bomford (Chairman), Councillors Bainbridge, Carrigan, Higgs, Mrs Mallinson, Patrick and Sidgwick (S)

ALSO

PRESENT: Councillor Dr Tickner, Deputy Leader and Finance, Governance and Resources Portfolio Holder (until 10.35am)
Engagement Lead (Grant Thornton)
Engagement Manager (Grant Thornton)

OFFICERS: Legal Services Manager
Chief Finance Officer
Deputy Chief Finance Officer and Designated Head of Internal Audit

AUC.42/18 APOLOGY FOR ABSENCE

No apologies for absence had been submitted.

AUC.43/18 DECLARATIONS OF INTEREST

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

AUC.44/18 PUBLIC AND PRESS

RESOLVED – That the Agenda be agreed as circulated.

AUC.45/18 EXTERNAL AUDIT FINDINGS FOR CARLISLE CITY COUNCIL 2017/18

The Engagement Lead (Grant Thornton) presented a report summarising the key issues arising from Grant Thornton's statutory audit of the City Council's financial statements for the year ended 31 March 2018.

The Engagement Lead was pleased to inform Members that overall the position was very positive. Their findings and audit adjustments were summarised in Appendix C. One error had been identified in the financial statements, which had resulted in a £2.413m adjustment to the Statement of Comprehensive Income and Expenditure (CIES). That error had reduced both income and expenditure, which had no net impact on the Council's surplus. That also required a prior period adjustment to the 2016/17 CIES. Other audit adjustments were detailed in Appendix C; recommendations for management as a result of the audit work in Appendix A; and follow-up recommendations from the prior year's audit detailed in Appendix B.

Subject to outstanding queries being resolved, Grant Thornton planned to issue an unqualified audit opinion on the financial statements with no material primary statement misstatements identified.

In addition, Grant Thornton was satisfied that in all significant respects, the City Council had put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2018.

Attention was further drawn to page 7 of the document pack which detailed the additional powers and duties for local government auditors. Grant Thornton had not required to exercise those statutory functions.

The Engagement Lead reported that the draft financial statements and accompanying working papers had been received well in advance of the 2018 statutory deadline. Prompt responses had also been provided in respect of queries raised. He wished to convey thanks to the authority and, in particular, to the Chief Finance Officer and the Deputy Chief Finance Officer for what had been a fantastic achievement and a significant step forward.

The Engagement Manager provided an overview of the key audit and financial reporting issues as detailed within the report. He drew attention to the key issues arising from the audit and explained the significant audit risks, reasonably possible audit risks and the going concern assumptions.

The Engagement Manager also highlighted the Value for Money key findings and explained that based on the review of the arrangements in place during 2017/18 for the compilation of the Medium Term Financial Plan (MTFP) including identified savings, Grant Thornton concluded that the overall risk was sufficiently mitigated and the Council had proper arrangements in this area. He explained that the Minimum Revenue Provision (MRP) savings included in the MTFP had been reviewed in 2017/18 but the provisions included for 2018/19 would be subject to further work during the year to understand whether they were justified.

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

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

- A Member asked officers to expand on the MRP.

The Deputy Chief Finance Officer responded that the MRP review had been undertaken two years ago by Link Asset Services and the Council had included savings options identified from that report in the MTFP. Officers were confident in the accounting treatment.

- Were Grant Thornton confident with the calculation?

The Engagement Manager confirmed that Grant Thornton were confident with the calculation however further work on the 2018/19 adjustment would be required.

- A Member asked for more detail on the control based methodology and the impact the changes would have on audit.

The Engagement Lead confirmed that Grant Thornton had always used control based methodology however moving forward more reliance would be placed on these which should improve efficiencies and reduce workload with Grant Thornton and Financial Services.

- It was recommended that the Committee forward the Action Plan to the Business and Transformation Scrutiny Panel to inform their scrutiny of the budget.
- What steps were being taken to ensure the authority had a sufficient budget for unknown costs or emergencies?

The Chief Finance Officer explained that the General Fund Reserve included £1m for emergency expenditure and this had been in place for several years. She assured Members

that there were provisions in place to access the money in an emergency. As part of the review of the MTFP it was proposed that the Reserve was increased to £3.3m as the position with regard to Business Rate Retention and the future funding of the authority was uncertain. She reassured Members that the proposed increase would not negatively impact on services.

- Would there be any issues or conflicts if Grant Thornton began tendering for other business with the authority whilst acting as authority's auditors?

The Engagement Lead assured Members that Grant Thornton had to abide by strict ethical standards and were proud of the robust arrangements that were in place. While Grant Thornton were able to tender to provide other financial services to the authority they would be subject to the same procurement procedures as all other businesses.

- Which assets had not been included in the valuation instructions.

The Deputy Chief Finance Officer responded that St James Pavilion (£25,000) and a Home Share Property (£51,000) had not been included. The assets had been classified as different asset types on the Property atabase and the Asset register. This had been corrected and both assets had been recorded correctly.

The Portfolio Holder, on behalf of the Executive, thanked the Financial Services Team and officers for their excellent work and he thanked Grant Thornton for their detailed work and support.

RESOLVED – That the Audit Committee:

(1) Note and receive the very positive External Audit Findings Report for the year ended 31 March 2018.

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

(3) Forward the Action Plan to the Business and Transformation Scrutiny Panel to inform their scrutiny of the budget.

(4) Recognise the good work undertaken by the Financial Services Team and officers, and the success in achieving the statutory close down. The Committee was also most appreciative of the contribution of the Engagement Lead and the Engagement Manager (Grant Thornton).

AUC.46/18 STATEMENT OF ACCOUNTS 2017/18

The Deputy Chief Finance Officer submitted report RD.17/18 presenting the Council's Statement of Accounts 2017/18 which had been subject to a two month audit process, (commencing in June and with a statutory deadline date of 31 July 2018).

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

There were six recommendations made by the Auditor relating to the disclosure issues raised in the Audit Findings Report (ISA260). The completed Action Plan would be reviewed and closely monitored during 2018/19.

The Deputy Chief Finance Officer concluded by requesting that the Audit Committee approve the 2017/18 Statement of Accounts, noting that also included the audited Annual Governance Statement.

RESOLVED – (1) That the Audit Committee approve the 2017/18 Statement of Accounts, noting that also included the Annual Governance Statement.

(2) That the 6 recommendations from the audit of the 2017/18 financial statements should continue to be monitored and an update be presented to the Committee in January 2019.

AUC.47/18 LETTER OF REPRESENTATION 2017/18

The Deputy Chief Finance Officer reported (RD.16/18) that the audit of the Statement of Accounts for 2017/18 was substantially complete with the Auditors' Audit Findings Report (ISA260) having been considered earlier in the meeting. Following approval of that report, the Auditors would issue their formal opinion and the audit process for 2017/18 would be complete.

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

Members were asked to approve the Letter of Representation 2017/18.

RESOLVED – (1) That the Audit Committee approve the Letter of Representation for 2017/18.

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

[The meeting ended at 10.50am]