

## **AUDIT COMMITTEE**

**WEDNESDAY 26 SEPTEMBER 2018 AT 10.00 AM**

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

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

**ALSO**

**PRESENT:** Engagement Lead (Grant Thornton)  
Engagement Manager (Grant Thornton)

### **AUC.48/18 APOLOGIES FOR ABSENCE**

Apologies for absence were submitted on behalf of Councillors Higgs and Ms Patrick.

### **AUC.49/18 DECLARATIONS OF INTEREST**

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

### **AUC.50/18 PUBLIC AND PRESS**

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

### **AUC.51/18 MINUTES OF PREVIOUS MEETING**

**RESOLVED** – To note that Council, on 11 September 2018, received and adopted the minutes of the Audit Committee meetings held on 9 and 30 July 2018. The minutes were signed by the Chairman.

### **AUC.52/18 MINUTES OF BUSINESS AND TRANSFORMATION SCRUTINY PANEL**

The Minutes of the meetings of the Business and Transformation Scrutiny Panel held on 26 July and 6 September 2018 were submitted for information.

**RESOLVED** – That the Minutes of the meetings of the Business and Transformation Scrutiny Panel held on 26 July and 6 September 2018 be noted and received.

### **AUC.53/18 AGENDA**

**RESOLVED** – That agenda item A.3 Annual Audit Letter 2017/18 be considered before agenda item A.2 External Audit Progress Report and Sector Update.

### **AUC.54/18 ANNUAL AUDIT LETTER 2017/18**

The Engagement Lead (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 2018. Members were reminded that the detailed findings arising from Grant Thornton's audit work had been reported to the Committee in their Audit Findings Report on 30 July 2018; the Letter contained no new information.

The Letter recorded that Grant Thornton had:

- Determined materiality for the audit of the Council's financial statements to be £1,188,000, which equated to 1.75% of the Council's gross revenue expenditure
- given an unqualified opinion on the Council's financial statements on 30 July 2018
- completed work on the Council's consolidation return following guidance issued by the NAO
- not identified any matters which required them to exercise any of their additional statutory powers

Grant Thornton was satisfied that the Council had put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources; that had been reflected in their audit report opinion to the Council on 30 July 2018. In addition the action plan which had been reported in July had been acknowledged by management and actions were being put into place.

The Committee thanked the Corporate Director of Finance and Resources and her team for all of the work that they had undertaken to achieve excellent results.

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

#### **AUC.55/18      EXTERNAL AUDIT PROGRESS REPORT AND SECTOR UPDATE**

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

The Engagement Manager summarised the introductory information and progress at September 2018 in terms of the 2017/18 Audit, the 2018/19 Audit and other areas, together with the Audit Deliverables (pages 46 and 47 of the document pack referred).

The Engagement Manager presented, in some detail, the Sector Update which provided an up-to-date summary of emerging national issues and developments. He drew particular attention to the Vibrant Economy Index which used data to provide a robust, independent framework to help everyone understand the challenges and opportunities in their local areas. To support local collaboration Grant Thornton had developed a Vibrant Economy app which had been designed to help broaden understanding of the element of vibrant economy and encourage the sharing of new ideas for local vibrancy. A test app was available for Members to view and Grant Thornton were inviting Councils to share the app with employees and the wider community. In response to a question the Engagement Manager explained that it was proposed that the Vibrant Economy Index would provide a set of indices relevant to all sectors and would allow all sectors to work together using the Index as the foundation for partnership working.

The Engagement Manager reported that the Chartered Institute of Public Finance and Accountancy (CIPFA) had designed a Financial Resilience Index to provide reassurance to Councils who were financially stable and promptly challenge where it may be needed. The index was driven by CIPFA's desire to support the local government sector as it faced a continued financial challenge. The index would not be a predictive model but a diagnostic tool designed to identify those Councils displaying consistent and comparable features that would highlight good practice, but crucially, also point to areas which were associated with financial failure. An update on the Financial Resilience Index would be provided at the next meeting of the Audit Committee.

Referring to the Business Rate Pilots, the Corporate Director of Finance and Resources informed the Committee that the six District Councils and Cumbria County Council had submitted a bid for the 2019/20 Business Rate Pool. The outcome of the bid would not be known until the budget statement in November. In response to a further question the Corporate Director of Finance and Resources explained that the bid had been supported by details of the governance arrangements which included information on how any monies would be divided across the different Councils.

A Member felt that the authority was in a strong position and did not show any of the factors associated with financial stress as detailed in the report. The Engagement Lead agreed that the authority was in a good position, however, it was prudent moving forward for the Council to continuously review and challenge the position and one tool to aid this was the Financial Resilience Index.

The Corporate Director of Finance and Resources agreed that the reserves balance was healthy and reminded the Committee that reserves had purposely been built up to give the Council some resilience for the future as it was unknown what Government support would be given to the Council from 2020/21. In addition the Council looked at all the resources available to ensure that income was being generated wherever possible.

A Member referred to the Social Housing Green Paper and asked if it would allow Local Authorities to supply or support the supply of social housing in areas which desperately needed it. The Engagement Lead confirmed that some Local Authorities had begun looking to set up Local Housing corporations to meet their Council priorities of increasing social housing. He advised that it was a complex process with a lot of risks but was one option to meet the requirement of additional social housing.

RESOLVED – That the Audit Committee noted and received Grant Thornton's audit progress report and sector update for the year ending 31 March 2019.

#### **AUC.56/18      INTERNAL AUDIT PROGRESS QUARTER 2 – 2018/19**

The Principal Auditor submitted report RD.21/18 providing an overview of the work carried out by Internal Audit in the second quarter of 2018/19.

Details of progress against the 2018/19 Audit Plan were as shown at Appendix 1. Just over half of the planned reviews had been either completed or were currently in progress and the Principal Auditor was confident that the targets in the 2018/19 Audit Plan would be met.

The Principal Auditor advised that three full audit reviews and one follow up audit review had been completed in the second quarter, namely Audit of Smarter Service Delivery; Audit of Noise Pollution Complaints (Environmental Health); Audit of Sands Centre Redevelopment (Governance Arrangements); and Audit Follow Up of The Old Fire Station.

During Quarter 2, the Internal Audit resource was also utilised on an internal investigation following a whistle-blowing allegation relating to misuse of Council resources. The investigation was finalised in August 2018 and the allegations were not upheld.

To provide an effective Internal Audit service, there needed to be an effective measure of the performance it achieved. The table set out at paragraph 3.1 showed progress against the indicators agreed for 2018/19. There was no target next to the 'Recommendations Implemented' as it was the first year that this information was being collated and would be used as the base line for the future. It was noted that the chargeable time was slightly under target due to a long-term sickness within the team, which was no longer ongoing.

The Principal Auditor referred Members to Appendix 2 which 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, would 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:

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

The Principal Auditor then outlined each of the 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 Smarter Service Delivery (Reasonable Assurance Opinion)

- A Member noted the inclusion of a consent notice within My Account and asked if a retention policy had been introduced for the information which would be collected.

The Principal Auditor responded that the Council's Retention Policy was a separate matter and more information on retention would be available for users of My Account through the hyperlinked Privacy Policy.

- Had training on GDPR been rolled out to Members?

The Principal Auditor reminded the Committee that the Audit had focussed on the Customer Services team and those individuals who used Salesforce. The Corporate Director of Governance and Regulatory Services confirmed that training had been made available for Members but it was not mandatory.

#### Audit of Noise Pollution Complaints (Environmental Health) (Substantial Assurance Opinion)

- A Member had concerns regarding sensitive information being left out on desks and asked if the Council had a Clear Desk Policy or if it should have one.

The Corporate Director of Governance and Regulatory Services confirmed that the Council did not have a Clear Desk Policy but all managers had been made aware of the requirements of GDPR and all staff had been informed of the requirements and advised that sensitive information should be locked away overnight. Following some discussion by the Committee it was acknowledged that a corporate review of information governance was scheduled and would come to the Audit Committee at a future date. The Committee would then have the opportunity to deal with any issues that may arise from the review.

### Audit of Sands Centre Redevelopment (Governance Arrangements) (Substantial Assurance Opinion)

- A Member sought assurance that the Sharepoint website was secure in terms of data protection.

The Principal Auditor assured the Committee that the Sharepoint website secure, adding that most of the financial information held on the website was also available publicly.

- The Contracts and Community Services Manager was due to leave the authority and there was some concern that, as the lead officer, his departure would affect the results of the audit of the Sands Centre Redevelopment.

The Corporate Director of Governance and Regulatory Services reassured the Panel that a change in staff would not change the 'sound system of internal control'. The Lead Officer for the Redevelopment would be the Projects Manager within the Property Services Team. The Principal Auditor assured the Committee that the resilience of the system was in place through the required documentation.

### Audit follow up of The Old Fire Station (Reasonable Assurance Opinion)

- Members highlighted the requirement for staff to complete a register of gifts and hospitality when receiving hospitality at the Old Fire Station and asked if Members had been reminded of the same requirement?

The Corporate Director of Governance and Regulatory Services reminded the Committee that Members were covered by the Code of Conduct and received regular reminders of their requirement to complete a register of gifts and hospitality.

The Committee thanked the Principal Auditor and his team for the work that had been undertaken with the Old Fire Station and acknowledged the significant work that had taken place to complete all of the recommendations in the audit report.

RESOLVED – That the Audit Committee:

- 1) Noted the progress against the Audit Plan for 2018/19 set out within Report RD.21/18.
- 2) Received the final audit reports as outlined in paragraph 2.2.
- 3) Noted the progress made on audit recommendations to date outlined in Appendix 2.
- 4) Requested that the Member Learning and Development Group look at how all Members could be encouraged to undertake GDPR training.

### **AUC.57/18      TREASURY MANAGEMENT: APRIL TO JUNE 2018**

The Deputy Chief Finance Officer submitted report RD.20/18 providing the regular quarterly report on Treasury Transactions including the requirements of the Prudential Code.

The Deputy Chief Finance Officer highlighted, in particular, the outstanding investments as at 30 June 2018. He added that the increase in the interest rate would be reflected in the next Treasury management report.

The Executive had on 20 August 2018 (Minute EX.79/18) received report RD.20/18 and noted the Prudential Indicators as at the end of June 2018.

The Committee discussed the Authorised Borrowing Limit and the Operational Borrowing Limit and were assured by the Corporate Director of Finance and Resources that the Authorised Borrowing Limit could not be breached without the authority of full Council.

RESOLVED – That Audit Committee noted and received Report RD.20/18; also noting the good return on the Property Fund.

[The meeting ended at 11.31am]