

# Report to Council

Agenda  
Item:  
  
**18**

Meeting Date: 24<sup>th</sup> April 2018  
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 the Audit Committee  
Report Number: RD51/17

## Purpose / Summary:

This report provides a summary of the work undertaken by the Audit Committee during 2017/18.

## Recommendations:

It is recommended that Council note and approve this annual report.

## Tracking

Executive:	<b>Not applicable</b>
Audit Committee	<b>19 March 2018</b>
Council:	<b>24<sup>th</sup> April 2018</b>

**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

## Report to Audit Committee

Agenda  
Item:

Meeting Date: 19 March 2018  
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: RD51/17

### Purpose / Summary:

This report provides a summary of the work undertaken by the Audit Committee during 2017/18.

### Recommendations:

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

### Tracking

Executive:	<b>Not applicable</b>
Overview and Scrutiny:	<b>Not applicable</b>
Council:	<b>24<sup>th</sup> April 2018</b>

## 1 **BACKGROUND**

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

## 2. **PURPOSE OF THE REPORT**

- 2.1 This report summarises the work carried out by the Audit Committee during 2017/18. It demonstrates to Council and stakeholders the effectiveness of the Committee in maintaining the organisation's internal control environment and governance arrangements.
- 2.2 The Terms of Reference for the Audit Committee were reviewed at the start of the year with the required changes subsequently reported to and approved by full Council on 15<sup>th</sup> May as part of the Council's Scheme of Delegation for 2017/18.
- 2.3 The Committee
- 2.3.1 The Members of the Audit Committee for this municipal year are -

<b>Conservative</b>	<b>Labour</b>
Mrs Mallinson E	Ms Patrick (Chair)
Shepherd	Bowditch (Vice Chair)
Higgs	Mrs Birks
Bowman S (sub)	Sidgwick
Christian (sub)	Alcroft (sub)
Earp (sub)	Ms Williams (sub)
	Wilson (Sub)

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

14<sup>th</sup> July 2017  
31<sup>st</sup> July 2017  
27<sup>th</sup> September 2017  
12<sup>th</sup> January 2018

Details of the agenda items covered at each meeting are given at **Appendix A**.

- 2.3.3 The External and Internal Auditors, the Portfolio Holder for Finance, Governance and Resources, the Chief Finance Officer and the Monitoring Officer are invited to all Committee meetings. In addition, Members met the External Auditors to discuss topical issues without officers being present at its January meeting. The Committee can seek attendance from any officer or Member of the Executive and has exercised this right on several occasions.
- 2.3.4 At each meeting the Committee receives, for information purposes, the minutes of the Business and Transformation Scrutiny panel.
- 2.3.5 Training is an essential element for an Audit Committee. The Committee receive annual training and have been updated on statutory accounting requirements and are alert to the possibility of areas in which their knowledge could be extended.
- 2.4 External Audit
- 2.4.1 The Audit Committee received and approved the external auditor's Annual Audit Plan. It commented on the fee rates and work programme consultation carried out by Grant Thornton based on fees set by Public Sector Audit Appointments Ltd, the independent company set up by the Local Government Association with delegated statutory functions to set audit fees and make arrangements for certain audits.
- 2.4.2 The Audit Committee also received the Annual Findings Report and the annual Grant Certification Report and monitored actions against the recommendations within these reports. A judgement was included in the Annual Governance Report indicating whether the Council has adequate arrangements to secure Value for Money in the use of resources. The Annual Audit Letter summarised the auditor's work for the year and opinion on the Council's financial statements and value for money arrangements.
- 2.4.3 At the pre-briefing session prior to the January meeting, members held a private briefing with the external auditors to discuss various topics without officers being present.
- 2.4.4 Finally, the external auditor also provided the Committee with informative updates on key areas of interest in Local Government which were well received by the Committee and which the Committee referred on to other groups who may find them useful, e.g. Executive or Council.

## 2.5 Internal Audit

- 2.5.1 The Committee has overseen the work undertaken by Internal Audit throughout the year, including the delivery of the Annual Audit Plan. The Internal Audit Service was brought back in house from 1 April 2017, and has been establishing new ways of working and building relationships with the Committee and Officers throughout the year.
- 2.5.2 Before the start of the year, the Committee approved the Internal Audit Plan which set out the individual audit review areas to be carried out. The Internal Audit Plan focused on a Risk Based approach to establishing which reviews to undertake and where resources should be focussed.
- 2.5.3 The Committee received quarterly update reports from Internal Audit highlighting performance against the plan as well as reports of completed reviews. Each report is supplemented by a verbal update on key areas of success or concern in each completed audit review from the Designated Head of Internal Audit and the Principal Auditor.
- 2.5.4 The Committee also received updates on the progress against Audit recommendations and monitors closely where these are not completed to a satisfactory level.
- 2.5.5 Up to the 12 January 2018, the Committee had received eleven final reports with the following assurance levels

<b>Assurance Level</b>	<b>Number of Final Reports</b>
Substantial	5
Reasonable	4
Partial	2
<b>Total</b>	<b>11</b>

- 2.5.6 The Committee concentrates its attention to high priority recommendations made in reports. Where a report carries a partial assurance level, the Committee usually receives a verbal update from the relevant Director or Service Manager to outline how the review is being dealt with and how the assurance can be improved. Where a partial assurance is given, the Internal Audit team will perform a formal follow up within six months and report back to the Audit Committee to outline how

recommendation have been implemented and whether the assurance level has increased.

- 2.5.7 The Committee have previously had concerns over the Records Management review and the progress being made in respect of policies and procedures around Records Management. During 2017/18, the Committee were able to receive the assurances from Internal Audit that significant progress had been made against the recommendations and that depending on a final review to be undertaken early in 2018/19, this item may not need to be included again on the Annual Governance Statement as a key control weakness. This will be determined by June 2018.
- 2.5.8 The Internal Audit team operate under the guidelines laid down by the Public Sector Internal Audit Standards and the Council also has an Audit Charter in place that is brought to the Committee for approval annually.
- 2.5.9 Internal Audit also provide assurance through an Annual Report that the Council's overall control environment is satisfactory and whether any key weaknesses should be addressed in the Annual Governance Statement. This report was received in July 2017 and highlighted no new areas of concern.

## 2.6 Accounts

- 2.6.1 The Committee considered the Council's accounts at its July meetings in both draft and Audited forms and was pleased that the Council's accounts had achieved an earlier closedown in advance of the new requirement for 2017/18. The Committee received the Audit Findings report at its meeting on 31 July 2017, where the External Auditors reported their intention to provide an unqualified opinion on the financial statements. Their key message was that the Council produced good quality financial statements that were free from material error and supported by comprehensive working papers.
- 2.6.2 Each year the Committee receives training from the Deputy Chief Finance Officer on the key issues in the Statement of Accounts and how to scrutinise and question what is presented. This training session is also complemented throughout the year by regular update reports outlining proposed accounting policies and updates on recommendations made in the previous Audit Findings report.
- 2.6.3 The External Auditor also reported alongside their Audit Findings that the Council has proper arrangements in place for securing Value for Money.

2.6.4 The Committee received the Annual Audit Letter at its September meeting which confirmed the audit conclusions given for 2016/17.

## 2.7 Corporate Governance

2.7.1 The Committee is responsible for ensuring the Council meets the requirements of the Code of Corporate Governance and the Good Governance Principles. The CIPFA/SOLACE document 'Delivering Good Governance in Local Government: Framework' was updated in 2016 and at its core was the principal that local government develops and shapes its own approach to governance.

2.7.2 The Committee considered a review of the Code of Corporate Governance at its September meeting to ensure it fits in with the revised Framework and reflects the current governance arrangements of the Council.

## 2.8 Treasury Management

2.8.1 The Audit Committee has responsibility for monitoring the Council's arrangements for Treasury Management and received reports for scrutiny on a quarterly basis, together with consultation on the proposed Treasury Management Strategy Statement.

2.8.2 The Committee take a keen interest in Treasury Management matters and question Officers around the security of the Council's investments and its approach to capital financing. Some members of the Committee attended training on Treasury Management in January 2018 provided by the Council's Treasury advisors, Link Asset Services to enhance their understanding of this complex area.

## 2.9 Risk Management Monitoring

2.9.1 The Committee has received regular updates on the risk management process and that the corporate risk registers are being looked at on a regular basis. It is not the Committee's duty to determine that risks are being adequately managed, more so that the process of monitoring risks is being adhered to and that regular updates on risk management are given to the Executive and Scrutiny Panels where appropriate.

## 2.10 Fraud Prevention and Whistleblowing

2.10.1 The promotion of fraud awareness is important to Audit Committee Members who encourage officers in their efforts. Any incidences of fraud are reported to the Committee through the Internal Audit quarterly reports.

## 2.11 Effectiveness of the Audit Committee

2.11.1 The Committee undertook an effectiveness review in 2016 and received an update in July 2017 outlining the proposed steps to be taken next to enhance the Committee's effectiveness with a training plan to be developed and rolled out with pre-meeting time to be used to deliver quick training sessions to members.

## 3 CONSULTATION

None

## 4 CONCLUSION AND RECOMMENDATION

4.1 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.

4.2 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.

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

## 5 CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

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

**Contact Officer:**

**Steven Tickner**

**Ext: 7280**

**Appendix A**

**Appendix A - Audit Committee Agendas**

**Appendix B**

**Appendix B - 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 Agenda's**

**14<sup>th</sup> July 2017**

- A2. External Audit Update Report 2016/17
- A3. Audit Fee Letter 2017/18
- A4. Annual Governance Statement 2016/17
- A5. Statement of Accounts 2016/17
- A6. Treasury Management Outturn 2016/17
- A7. Internal Audit Progress Report Q4 2016/17
- A8. Internal Audit Annual Report 2016/17
- A9. Internal Audit Progress Report Q1 2017/18
- A10. Effectiveness Review of the Audit Committee
- A11. Corporate Risk Management
- B1. Implementation of Risk Based Verification

**31<sup>st</sup> July 2017**

- A1. External Audit Findings for Carlisle City Council 2016/17
- A2. Statement of Accounts 2016/17
- A3. Letter of Representation 2016/17

**27<sup>th</sup> September 2017**

- A2. Annual Audit Letter 2016/17
- A3. Code of Corporate Governance and Good Governance Principles
- A4. Internal Audit Progress Report Q2 2017/18
- A5. Treasury Management: April to June 2017

**12<sup>th</sup> January 2018**

- A2. External Audit Progress Report and Sector Update
- A3. 2016/17 Annual Certification Letter
- A4. Final Accounts Process 2017/18
- A5. Internal Audit Progress Report Q3 2017/18
- A6. Draft Treasury Management Strategy Statement, Investment Strategy and MRP Strategy 2018/19
- A7. Treasury Management: July to September 2017/18

## 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 Designated Head of Internal Audit'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 relevant Codes of Conduct.

To review any issue referred to it by the Town Clerk and Chief Executive or a Chief Officer, 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 relevant published standards and controls.

### **2.3 Accounts**

To consider the external auditor's report to those charged with governance on issues arising from the audit of the 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 approve the Letter of Representation

## **3. ACCOUNTABILITY**

3.1 The Audit Committee shall be a stand-alone Committee of the Council. All Audit Committee members shall act in the interests of the Council and not on behalf of any political party, constituency, ward, or interest group.

3.2 The Chair of the Audit Committee shall be appointed by the Committee. The Chair and the Committee shall 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 Chair of the Audit Committee shall 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 shall 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 shall have access to in-house financial, legal and any other professional advice necessary to carry out its functions.

4.4 The Chair of the Audit Committee and the external and internal auditor shall meet as necessary and the Council's Designated Head of Internal Audit shall 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 Chair of the Committee who shall 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 shall 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 shall be eligible to be a member of the Audit Committee.
- 5.2 The Audit Committee shall be provided with administrative support by the Governance & Regulatory Services Directorate and reports/decisions of the Audit Committee shall be recorded and published on CMIS in the usual way. Financial Services shall provide technical support to the Committee when required. As the decisions of the Audit Committee shall not be of an executive nature, the decisions shall 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 Chair of the Audit Committee, the Monitoring Officer and/or the Section 151 Finance Officer and/or ask an oral question of the Chair 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
  - Portfolio Holders
  - Town Clerk and Chief Executive
  - Chief Finance Officer (Section 151)
  - Corporate Director of Governance and Regulatory Services (Monitoring Officer)
  - Designated Head of Internal Audit
  - Other Chief Officers 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 shall 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 shall meet at least four times a year in accordance with the schedule of meetings agreed by the Council. The External Auditor or the Designated Head of Internal Audit 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 shall commit to receiving appropriate training and development necessary to fulfil their roles.

## **8. QUORUM**

- 8.1 The quorum for any meeting shall 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 Designated Head of Internal Audit.

#### 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.

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## **EXCERPT FROM THE MINUTES OF THE AUDIT COMMITTEE HELD ON 19 MARCH 2018**

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### **AUC.21/18      AUDIT COMMITTEE'S ANNUAL REPORT**

The Chairman presented report RD.51/17 summarising the work undertaken by the Audit Committee during 2017/18. Also included was the Committee's Rules of Governance.

Audit Committees were a key component of an authority's governance framework. The purpose of an audit committee was 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 made an important contribution to ensuring that effective assurance arrangements were in place.

The Audit Committee's annual report provided the Council with information to show how the Audit Committee had fulfilled its role during the year and provided 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.

The Chairman welcomed the change in format of the report and thanked the Deputy Chief Finance Officer for his work in that regard.

Paragraph 2.5.7 recorded that the Committee had previously had concerns over the Records Management review and the progress made in respect of policies and procedures around Records Management. The Chairman questioned the current position on that issue and whether records management could be removed from the Annual Governance Statement.

The Chief Finance Officer suggested that Records Management should remain on the Annual Governance Statement as a key control weakness if assurance could not be given before the Annual Governance Statement was published.

Following discussion, it was agreed that the report be amended to record that the item may not need to be included again, but that would be determined by June 2018.

The Chairman further requested the undernoted amendments:

- Paragraph 2.5.6 – the last sentence be amended to read ..... the Internal Audit Team will perform a formal follow up “within six months” and report back to the Audit Committee .....



- The appendices be renumbered so that Appendix A comprised the list of Agenda items and Appendix B the Audit Committee's Rules of Governance.

In conclusion the Chairman recommended that, subject to the amendments highlighted, the Audit Committee note and accept the report for recommendation to Council.

RESOLVED – That, subject to the amendments identified above, the Annual Report of the Audit Committee, which would be submitted to the City Council on 24 April 2018, be noted and accepted.