

AUDIT COMMITTEE

THURSDAY 22 DECEMBER 2016 AT 10.00 AM

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

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

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

ALSO

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

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

AUC.66/16 CHAIRMAN'S COMMENTS

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

AUC.67/16 APOLOGY FOR ABSENCE

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

AUC.68/16 DECLARATION OF INTEREST

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

AUC.69/16 PUBLIC AND PRESS

RESOLVED – That the Agenda be agreed as circulated.

AUC.70/16 MINUTES OF PREVIOUS MEETING

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

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

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

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

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

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

AUC.72/16 ANNUAL AUDIT LETTER 2015/16

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

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

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

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

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

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

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

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

AUC.73/16 AUDIT COMMITTEE PROGRESS AND UPDATE REPORT

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

The Audit Manager provided an overview of progress as at December 2016 as detailed within the report, commenting in particular upon the fact that Grant Thornton had completed the work on the Housing Benefit Subsidy Claim on 25 November 2016, and a qualification letter was required. Although, there were no areas of significance to report to

the Committee from the testing performed, the level of errors to report to the Department of Works and Pensions was higher than in previous years. Accordingly additional testing was required.

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

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

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

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

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

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

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

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

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

AUC.74/16 FINAL ACCOUNTS PROCESS 2016/17

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

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

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

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

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

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

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

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

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

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

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

The Audit Manager informed Members that:

2015/16 Plan

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

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

2016/17 Plan

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

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

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

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

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

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

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

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

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

Audit of Carlisle Enterprise Centre (Partial Assurance Opinion)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Audit of Overtime (Reasonable Assurance Opinion)

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

Audit of External Communications (Substantial Assurance Opinion)

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

Audit of Electoral Registration (Reasonable Assurance Opinion)

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

RESOLVED – (1) That Report RD.45/16 be received and progress made on the remainder of the 2015/16 Audit Plan, together with progress on the 2016/17 Audit Plan referred to in Section 2 be noted.

(2) That the Audit Committee received the finalised audit reports referred to in Section 4, subject to the following:

Audit of Carlisle Enterprise Centre:

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

Audit of External Communications:

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

The meeting adjourned at 11.00 am and reconvened at 11.10 am

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Members were invited to make any observations on treasury matters during the quarter, although it would be noted from the report that it had been a relatively quiet period in treasury terms.

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

AUC.78/16 CORPORATE RISK MANAGEMENT

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

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

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

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

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

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

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

AUC.79/16 PUBLIC AND PRESS

RESOLVED – That in accordance with Section 100A(4) of the Local Government Act 1972 the Public and Press were excluded from the meeting during consideration of the following item of business on the grounds that it involved the likely disclosure of exempt information as defined in the paragraph number (as indicated in brackets against the minute) of Part 1 of Schedule 12A of the 1972 Local Government Act.

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

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

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

Pursuant to Minute AUC.63/16, the Chief Finance Officer reported (RD.46/16) that, since 1 April 2010, the Council's Internal Audit Service had operated as part of a shared service arrangement between Cumbria County Council, Carlisle City Council, Copeland Borough Council and the Police Authority.

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

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

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

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

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

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

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

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

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

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

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

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

[The meeting ended at 12 noon]