

AUDIT COMMITTEE

WEDNESDAY 27 SEPTEMBER 2017 AT 10.00 AM

PRESENT: Councillor Patrick (Chairman), Councillors Mrs Birks, Bowditch, Earp (as substitute for Councillor Mrs Mallinson), Higgs, Shepherd and Sidgwick S

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

ALSO

PRESENT: Audit Manager (Grant Thornton)

AUC.43/17 WELCOME

The Chairman welcomed all those present to the meeting.

The Chairman reminded Members that the Committee had on 14 July 2017 decided that, moving forward, the private preparatory / briefing meetings for Members held immediately prior to each meeting of the Audit Committee would be used as a training session (Minute AUC.32/17 referred). That had not happened on this occasion but she gave an assurance that, in future, discussions would take place prior to the despatch of the agenda and reports to identify items appropriate for training.

AUC.44/17 APOLOGIES FOR ABSENCE

Apologies for absence were submitted on behalf of Councillor Mrs Mallinson; the Associate Director (Grant Thornton) and the Chief Finance Officer.

AUC.45/17 DECLARATIONS OF INTEREST

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

AUC.46/17 PUBLIC AND PRESS

RESOLVED – That the Agenda be agreed as circulated.

AUC.47/17 MINUTES OF PREVIOUS MEETINGS

The Minutes of the meetings of the Audit Committee held on 14 and 31 July 2017 were submitted.

RESOLVED – That the Minutes of the meetings of the Audit Committee held on 14 and 31 July 2017 be agreed as a correct record and signed by the Chairman.

AUC.48/17 MINUTES OF THE BUSINESS AND TRANSFORMATION SCRUTINY PANEL

The Minutes of the meeting of the Business and Transformation Scrutiny Panel held on 3 August 2017 were submitted for information.

RESOLVED – That the Minutes of the meeting of the Business and Transformation Scrutiny Panel held on 3 August 2017 be noted and received.

AUC.49/17 ANNUAL AUDIT LETTER 2016/17

The Audit Manager (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 2017. 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 31 July 2017; the Letter contained no new information.

The Letter recorded that Grant Thornton had given an unqualified opinion on the Council's financial statements on 31 July 2017, a full two months ahead of the statutory deadline of 30 September 2017; that they were satisfied that the Council had put in place proper arrangements to ensure economy, efficiency and effectiveness in the use of its resources during the year ended 31 March 2017; and that the audit of the accounts had been completed in accordance with the requirements of the Code on 31 July 2017.

The Audit Manager (Grant Thornton) congratulated the Financial Services Team on that achievement, which placed the authority in a very good position in terms of meeting the earlier deadline for next year.

The Audit Manager (Grant Thornton) then gave a brief overview of the key messages / risks identified as set out within the Annual Audit Letter. In so doing, she highlighted the fact that Grant Thornton's work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions was not yet complete. It would be finalised by the statutory deadline of 30 November 2017 and the results reported to the Committee in their Annual Certification Letter.

Attention was further drawn to the issues arising from the audit of the accounts and the very comprehensive response to the Action Plan.

In terms of reports issued and fees, Members were asked to note that the grant certification fee was still an estimate and would not be finalised until the November 2017 deadline.

The Chairman welcomed submission of the Annual Audit Letter and the good work undertaken.

RESOLVED – That the Audit Committee noted and received the Annual Audit Letter for 2016/17.

AUC.50/17 CODE OF CORPORATE GOVERNANCE AND GOOD GOVERNANCE PRINCIPLES

The Deputy Chief Finance Officer reported (RD.22/17) that the Audit Committee had responsibility to consider arrangements for Corporate Governance and agreeing necessary actions to ensure compliance with best practice.

The CIPFA/SOLACE document 'Delivering Good Governance in Local Government: Framework' was updated in 2016 and at its core was the principle that local government developed and shaped its own approach to governance. The Framework was intended to assist authorities in reviewing and accounting for their own unique approach.

The Council had therefore reviewed its Code of Corporate Governance to ensure it fitted in with the revised Framework and reflected the current governance arrangements of the Council; the revised Code being attached at Appendix A.

The Deputy Chief Finance Officer further explained that the Annual Governance Statement (AGS) demonstrated how the Council complied with the Code of Corporate Governance and was approved at the same time as the annual Statement of Accounts. The Good Governance Principles provided a further layer behind the AGS which demonstrated how the Council's governance structures were underpinned by the principles set out in the framework, together with the effectiveness thereof. Those Principles and the evidence to show compliance were outlined at Appendix B for the Committee's information.

The Chairman commented upon the quality and clarity of the Code of Corporate Governance and associated appendices. She noted that Appendix B made reference to the Resources Overview and Scrutiny Panel (which was now known as the Business and Transformation Scrutiny Panel) and questioned whether that would be amended moving forward.

In response, the Deputy Chief Finance Officer confirmed that the issue highlighted would be addressed when the Code was updated during the financial year.

RESOLVED – That the Audit Committee:

- (1) Approved the Code of Corporate Governance, attached at Appendix A to Report RD.22/17.
- (2) Noted the manner by which the Council was complying with the Good Governance Principles, as outlined at Appendix B.

AUC.51/17 INTERNAL AUDIT PROGRESS QUARTER 2 – 2017/18

The Designated Head of Internal Audit submitted report RD.21/17 providing an overview of the work carried out by Internal Audit in the second quarter of 2017/18.

Details of progress against the 2017/18 Audit Plan were as shown at Appendix 1.

Three audit reviews and two follow up reviews had been completed in the second quarter: Audit of Corporate Charge Card; Audit of Gifts and Hospitality; Audit of National Non Domestic Rates; Audit follow up of Housing Benefit Overpayments; and Audit follow up of Workforce Development and Training. The Internal Audit resource had also been utilised on the work detailed at paragraph 2.3 of the report.

The Designated Head of Internal Audit advised that the Audit Plan, as prepared in March, assumed that the Internal Audit service would be fully resourced from 1 April 2017 with all positions being filled and an allowance for leave entitlement. Although the two auditors TUPE transferred on 1 April, the Principal Auditor was not appointed until mid-May. That together with the completion of work for the 2016/17 Audit Plan for the Shared Service meant that the Audit Plan needed to be revised to reflect the available resources and the additional workload from completion of the 2016/17 Audit Plan.

The original Audit Plan identified 550 direct audit days for Internal Audit in 2017/18. Taking into account the delays in recruitment, actual working hours and actual leave entitlement the revised total audit days was now 536 days. It was therefore proposed to revise the allocated days across the work of Internal Audit as identified at paragraph 2.6. Details of the changes to the Plan were also recorded at paragraph 2.7.

Those amendments addressed the resource pressures placed on the Internal Audit team, predominantly due to the work required to complete the 2016/17 Shared Service Plan (and vacancies), while ensuring the core risk-based reviews included in the 2017/18 plan would still

be delivered. If there was a call within the year for Internal Audit to deliver additional work (such as the VFM Reviews) further review of the Audit Plan would be necessary.

In order 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 same indicators reported in 2016/17 as measures of the performance of Internal Audit.

Speaking on the issue of audit recommendations, the Designated Head of Internal Audit informed Members that Appendix 3 showed a summary position of outstanding audit recommendations and progress made against implementation thereof. The recommendations were colour coded to aid understanding, and a colour key would be included within future reports to highlight progress.

Once the agreed implementation date had passed, Internal Audit would ask the responsible officer for an update on progress. The responses would then be reported to the next available Audit Committee meeting and, if implemented, would then 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 Designated Head of Internal Audit indicated that the Principal Auditor would provide an overview of those audits which had received a reasonable or substantial assurance opinion; before focussing in greater detail on the audit with a partial assurance opinion.

The Principal Auditor then outlined the above mentioned audits highlighting, in particular, the key points / concerns and associated recommendations.

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

Audit of Corporate Charge Card (Partial Assurance Level)

- *Audit Finding 5.2.3 recorded that examples were noted where cards had been used to purchase rail fares, hotels and car parking; and that cardholders needed to ensure expenditure of that nature was in line with the general travel and subsistence scheme and the Council's approved rates. To what extent was the system being abused?*

The Principal Auditor replied that the audit recognised that the transactions alluded to were relatively low value. The issue was not around abuse of the system, rather that expenditure was not strictly in line with the policy.

- *A Member noted that work was planned to review an existing contract to see if a more cost effective system could be identified for the procurement of travel and accommodation expenses, and also to see how the cards would work alongside the e-procurement system. Was that now being undertaken to ensure value for money?*

In response, the Designated Head of Internal Audit outlined the process adopted on occasion by Officers with a view to obtaining better value for money for the authority. Internal Audit had asked for those instances where it was cheaper to go directly to the supplier to be logged, and they would look to raise the issue with the existing contractor under the review of the contract.

- *Section 4.4 - areas for improvement recorded that consideration should be given to cancelling the two corporate charge cards that were not being used. Had they been cancelled?*

Another Member questioned whether the five corporate charge cards related to one account.

The Designated Head of Internal Audit explained why those particular cards had not been in use and confirmed that they had now been cancelled.

On the latter point he stated that the Council had an overall credit limit with the Bank and there was no prescribed number of cards. The financial exposure was very low when compared to the overall budget, however, the reputational risk to the authority may be greater.

- *A Member asked whether the reduction in corporate charge cards had been incorporated within the Business Continuity Plan.*

The Designated Head of Internal Audit did not anticipate that an emergency card would be required, but contingency arrangements were in place should the need arise.

- *A Member questioned what had prompted the audit review.*

The Designated Head of Internal Audit indicated that the audit had arisen as part of the normal audit planning process. The particular area had not been looked at before and it was agreed by the Chief Executive that it should form part of the Audit Plan for this year.

The Designated Head of Internal Audit further advised that, in his capacity as Deputy Chief Finance Officer, he too wished the area to be audited. The audit review had highlighted areas of best practice from which confidence could be taken. A follow-up review would be undertaken in six months' time to ensure that the guidance was being addressed.

The Corporate Director of Governance and Regulatory Services reminded Members that the Internal Audit Shared Service arrangement had terminated on 31 March 2017. Much of the discussions prior to the decision to bring the service back in house had focussed upon the authority's ability to demonstrate independence.

The Corporate Director highlighted the fact that the audit had been given a partial assurance opinion; and that in his capacity as Deputy Chief Finance Officer the Designated Head of Internal Audit was recorded as being the responsible manager for undertaking the agreed actions.

The Chairman felt that the audit review constituted a good piece of audit work, the areas for improvement identifying how the authority could improve and tighten procedures. To that end she looked forward to submission of the follow-up review in due course.

The Designated Head of Internal Audit gave an assurance that the recommendations had all been actioned.

Audit of Gifts and Hospitality (Substantial Assurance Level)

The Chairman noted that there were no recommendations emanating from the audit review which had been given a substantial assurance opinion.

Audit of National Non Domestic Rates (Reasonable Assurance Level)

In response to a Member's question, the Designated Head of Internal Audit explained that 'DMTs' meant Directorate Management Teams.

The Chairman welcomed the clear and dynamic nature of the audit recommendations.

The Chairman did, however, note that Recommendation 1 included an implementation date of '6 months', and requested that Action Plans should in future include specific implementation dates.

Audit follow up of Housing Benefit Overpayments (Substantial Assurance Level)

- *A Member referenced the considerable concerns expressed in the past as part of the original audit, adding that he was reassured by the follow-up presented today. The Member commended the Revenues and Benefits Operations Manager for his excellent work in response to the audit.*
- *A Member highlighted the importance of succession planning, adding that members of staff should be able to cover jobs one level above / below their current role.*

The Chairman replied that the issue had been addressed as part of the positive follow-up review.

Audit follow up of Workforce Planning and Development (Substantial Assurance Level)

- *Referencing page 149, a Member questioned why the relevant Chief Officer had not commented upon the follow-up review.*

The Chairman commented upon the contentious nature of the initial audit review which had been the subject of much debate. She too would have welcomed the Chief Officer's comments.

The Designated Head of Internal Audit confirmed that verbal agreement had been received from the Chief Executive, but it was not possible to include written confirmation within the report due to reporting deadlines. He undertook to take that point on board.

- *A Member was pleased to note that the issue of succession planning had been highlighted as part of the review.*

The Designated Head of Internal Audit reminded Members that the Internal Audit Progress Quarter 1 report – RD.11/17 (considered by the Committee on 14 July 2017) proposed a new report template. Any comments Members may wish to make on the format thereof would be welcomed.

A Member considered the new reports to be very well presented and easier to read / understand.

The Audit Manager (Grant Thornton) sought clarification of the position regarding the Grant Thornton follow up review in relation to IT General Controls.

In response, the Designated Head of Internal Audit stated that the follow up was planned for the third quarter and, if necessary, would form part of an Internal Audit review.

The Chairman concluded by commenting upon the very positive nature of the follow-up review.

Referencing Appendix 1 – progress against revised audit plan 2017/18, a Member noted that the directorate review into Safeguarding (including DBS) had been postponed due to a staffing change. She wished to be assured that the authority was not being put at risk by the delay.

In response, the Designated Head of Internal Audit indicated that although the Manager had changed the safeguarding process was ongoing.

RESOLVED – That the Audit Committee:

- (1) Noted the progress against the Audit Plan for 2017/18 set out within Report RD.21/17.
- (2) Received the completed audit reviews / follow up reviews identified at Appendix 2, subject to the following:
 - The Committee looked forward to submission of a follow-up review on the Corporate Charge Card at a future meeting;
 - Members' appreciation of the good work undertaken be conveyed to the Revenues and Benefits Operations Manager; and
 - The position with regard to the outstanding audit recommendations be noted.
- (3) Welcomed and was pleased with the revised format of the audit reports which aided understanding thereof.
- (4) Noted that a key to colour coding in respect of outstanding audit recommendations would be included in future reports.
- (5) Considered that the Internal Audit function was working well under the new in-house arrangement.

AUC.52/17 TREASURY MANAGEMENT: APRIL TO JUNE 2017

The Deputy Chief Finance Officer submitted report RD.20/17 providing the regular quarterly report on Treasury Transactions including the requirements of the Prudential Code.

The report recorded that most budget heads were performing very much in line with the original estimate. There was an under spend on Minimum Revenue Provision (MRP) due to the Capital Financing Requirement being lower at the end of 2016/17 as a result of the final capital outturn position.

The Deputy Chief Finance Officer highlighted, in particular, the outstanding investments as at 30 June 2017. He added that the dividends received from the Property Fund had maintained an income of approximately £38,000 per quarter, with the yield to the end of June being 4.50%. The valuation of the investment at the end of June was £3,255,415.

The Deputy Chief Finance Officer then responded to a Member's question.

The Executive had on 29 August 2017 (Minute EX.88/17) received report RD.20/17 and noted the Prudential Indicators as at the end of June 2017.

RESOLVED – That Audit Committee noted and received Report RD.20/17; also noting the good return on the Property Fund.

[The meeting ended at 10.39 am]