

AUDIT COMMITTEE – SPECIAL MEETING

MONDAY 31 JULY 2017 AT 10.00 AM

PRESENT: Councillor Patrick (Chairman), Councillors Mrs Birks, Bowditch, Higgs, Mrs Mallinson and Sidgwick (S)

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

ALSO PRESENT: Deputy Leader, and Finance, Governance and Resources Portfolio Holder

Associate Director (Grant Thornton)
Audit Manager (Grant Thornton)
In Charge Auditor (Grant Thornton)

AUC.35/17 WELCOME

The Chairman welcomed all those present to the special meeting of the Audit Committee.

AUC.36/17 APOLOGY FOR ABSENCE

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

AUC.37/17 DECLARATIONS OF INTEREST

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

AUC.38/17 PUBLIC AND PRESS

RESOLVED – That the Agenda be agreed as circulated.

AUC.39/17 EXTERNAL AUDIT FINDINGS REPORT FOR CARLISLE CITY COUNCIL 2016/17

The Associate Director (Grant Thornton) began by introducing the In Charge Auditor who was a key member of the audit team and responsible for much of the detailed audit work undertaken.

The Associate Director presented a report highlighting the key issues arising from Grant Thornton's audit of the Council's financial statements for the year ended 31 March 2017. The report was also used to present their audit findings to management and the Audit Committee in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260 and the Local Audit and Accountability Act 2014.

The Associate Director was pleased to inform Members that overall the position was very positive. Grant Thornton planned to give an unqualified opinion on the financial statements with no material primary statement misstatements identified. One adjustment for £0.579 million to the primary statements had been identified and amended by management. The error related to classification only and did not impact on the financial position of the authority.

In addition, Grant Thornton was satisfied that in all significant respects, the City Council had put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2017.

Attention was further drawn to page 9 of the document pack which detailed the additional powers and duties for local government auditors. Grant Thornton had not required to exercise those statutory functions.

The Associate Director reported that the draft financial statements and accompanying working papers had been received well in advance of the 30 June 2017 statutory deadline. Prompt responses had also been provided in respect of queries raised. He wished to convey thanks to the authority and, in particular, to the Chief Finance Officer and the Deputy Chief Finance Officer for what had been a fantastic achievement and a significant step forward.

The Associate Director emphasised that the mandated change in the statutory deadline would take effect in 2017/18. It was therefore very important that the Council's Statement of Accounts was certified by 31 May 2018 or earlier.

The Chairman indicated that it was very pleasing to receive such positive feedback.

The Audit Manager (Grant Thornton) endorsed the sentiments expressed by the Associate Director which were testament to the considerable amount of work undertaken over a four week period.

The Audit Manager provided an overview of the key audit and financial reporting issues set out within the Executive Summary. In conducting the audit, it had not been necessary to alter or change the planned audit approach, communicated to the Committee in the External Audit Plan dated 16 April 2017. She added that (at the time of compilation of the report) the audit was substantially complete, although the procedures in the areas identified on page 9 were being finalised.

The Audit Manager also highlighted:

- The adjustment identified to the primary statements alluded to by the Associate Director. The error related to a misclassification only in the Comprehensive Income and Expenditure Statement and did not impact upon the net financial position of the authority.
- Based on Grant Thornton's review of the Council's Narrative Report and Annual Governance Statement, they were satisfied that those were consistent with the audited financial statements. They were further satisfied that the Annual Governance Statement met the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report were in line with the requirements of the CIPFA Code of Practice.

Amendments were made to the Annual Governance Statement to improve the links to the principles in the CIPFA/SOLACE Delivering Good Governance 2016 guidance. A recommendation was made in the Action Plan for the Council to update the local Code of Governance to reflect the revised principles in the revised guidance.

- As reported in their Audit Plan, Grant Thornton determined overall materiality to be £1.141 million (being 1.75% of revenue expenditure – cost of services). They had considered whether that level remained appropriate during the course of the audit and had made no changes.
- The audit findings against significant risks; accounting policies, estimates and judgements; and other communication requirements outlined at pages 14 to 21 of the document pack.

The In Charge Auditor referred to the table at pages 24 – 26 which set out misclassification and disclosure errors identified during the audit, which had been changed in the final set of financial statements. He outlined, in particular, adjustments 2, 3, 5, 7 and 10 for the benefit of the Committee.

The Audit Manager (Grant Thornton) continued by summarising:

- The recommendations contained within the Action Plan, together with the management response thereto (Appendix A referred).
- The work undertaken in relation to the value for money conclusion. A recommendation had been made in the Action Plan for external audit to receive the Council's consideration of the Minimum Revenue Provision treatment for 2017/18. That had been received and a technical review could now be undertaken.
- The final audit fees charged for the audit. It should be noted that the grant certification fee was still an estimate as their work on the Council's housing subsidy claim was ongoing and would not be finalised until November 2017.
- The draft proposed audit opinion set out at Appendix B.
- The glossary provided at the request of a Member, which would be utilised moving forward (Appendix C referred).

The Audit Manager concluded her presentation by expressing appreciation for the way in which the Accounts had been prioritised by the City Council. She thanked Financial Services Officers for their input.

The Deputy Chief Finance Officer confirmed that all of the items outlined had been amended. In terms of recommendation 3 he confirmed that a full review of the lease packets was undertaken following the issue being raised by the auditors and to ensure that the 2016/17 accounts were stated correctly. Where necessary, dates and inception values had been amended and the working paper adjusted.

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

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

- *A Member recognised the very stringent and challenging demands placed on local authorities in terms of financial accountability. She congratulated Financial Services Officers for their exceptional work in realising the achievement of early closedown of the accounts.*

The Member also paid tribute to the Associate Director and Audit Manager (Grant Thornton) for their input and the good partnership working undertaken.

Other Members outlined their appreciation to all concerned.

The Deputy Leader, and Finance, Governance and Resources Portfolio Holder echoed those sentiments. The Executive had an ambitious plan for economic growth within the Carlisle area which could only be delivered via a sound financial base.

The Deputy Leader wished to place on record his thanks to the Chief Finance Officer, the Deputy Chief Finance Officer, the Principal Accountant, Grant Thornton, and Members of the Audit Committee for their work.

The Chief Finance Officer confirmed that recommendations 1 and 3 within the Action Plan had been implemented; the remainder would be implemented at the year end. She considered that Officers had worked very well with external audit and welcomed the good achievement in terms of the early close down of the accounts.

- *Could Officers identify any risks at this time which may prevent adherence with the statutory deadline for 2017/18?*
- *Internal Audit had returned to an in-house provided service from 1 April 2017. Were all necessary arrangements in place to take the service forward?*

The Chief Finance Officer replied that, as Members were aware, the Accounts and Audit Regulations 2015 would require the City Council's Statement of Accounts for 2017/18 to be certified by 31 May 2018. Financial Services would be working to that timetable or earlier.

The Chief Finance Officer added that there was currently a very good and strong technical team within Financial Services. Potential risks would include any staffing changes which may occur, together with possible changes to the Accounting Code of Practice. She also paid tribute to the work undertaken by the Deputy Chief Finance Officer and Principal Accountant with regard to flood related insurance matters.

On the latter point, she confirmed that the Internal Audit Plan had been considered on 14 July 2017 and that the Designated Head of Internal Audit would update the Committee at their next meeting.

The Audit Manager (Grant Thornton) added that separate meetings took place with the Deputy Chief Finance Officer to ensure that his role as Designated Head of Internal Audit was also covered.

The Associate Director (Grant Thornton) emphasised that the revised close down deadline for 2017/18 would be extremely challenging for external audit. Therefore, if the City Council could work to an earlier date, that would be very helpful. He added that, given the

volume of work involved, submission of the External Audit Findings Report by the reporting deadline would be challenging.

In response, the Corporate Director of Governance and Regulatory Services advised that it was a requirement of the Access to Information Procedure Rules that the Council make copies of agenda and reports open to the public and available for inspection at least five clear days before the meeting in question.

RESOLVED – That the Audit Committee:

(1) Noted and received the very positive External Audit Findings Report for the year ended 31 March 2017.

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

(3) Recognised the good work undertaken by the Financial Services Team and the considerable success in achieving the early close down a year ahead of the mandated change in deadlines; it was hoped that success would be replicated for 2017/18. The Committee was also most appreciative of the contribution of the Associate Director; the Audit Manager; and the In Charge Auditor (Grant Thornton).

AUC.40/17 STATEMENT OF ACCOUNTS 2016/17

The Deputy Chief Finance Officer submitted report RD.17/17 presenting the Council's Statement of Accounts 2016/17 which had been subject to a two month audit process, (commencing in June and with a statutory deadline date of 30 September 2017). The audit for 2016/17 had been completed by 31 July 2017 as a precursor to the statutory deadline being brought forward to that date for 2017/18.

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

There were six recommendations made by the Auditor relating to the disclosure issues raised in the Audit Findings Report (ISA260). The completed Action Plan would be reviewed and closely monitored during 2017/18.

The Deputy Chief Finance Officer concluded by requesting that the Audit Committee approve the 2016/17 Statement of Accounts, noting that also included the audited Annual Governance Statement.

The Chairman noted that various amendments had been made to the Statement of Accounts and Narrative Statement, and sought clarification of the position as regards the Annual Governance Statement.

The Chief Finance Officer and the Audit Manager (Grant Thornton) explained that, due to the timescales involved, the authority had submitted a draft version of the Annual Governance Statement; Grant Thornton had fed comments back and the Statement was amended accordingly.

The Associate Director (Grant Thornton) added that subsequent to the last meeting of the Committee he had reflected upon the Performance Management Framework, and suggested that it needed to be reworded to reflect the ongoing transitional changes.

RESOLVED – That the Audit Committee approved the 2016/17 Statement of Accounts, noting that also included the amended Annual Governance Statement.

AUC.41/17 LETTER OF REPRESENTATION 2016/17

The Deputy Chief Finance Officer reported (RD.16/17) that the audit of the Statement of Accounts for 2016/17 was substantially complete with the Auditors' Audit Findings Report (ISA260) having been considered earlier in the meeting. Following approval of that report, the Auditors would issue their formal opinion and the audit process for 2016/17 would be complete.

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

Members were asked to approve the Letter of Representation 2016/17.

RESOLVED – (1) That the Audit Committee approved the Letter of Representation for 2016/17.

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

AUC.42/17 CHAIRMAN'S COMMENTS

Whilst drawing the meeting to a close, the Chairman welcomed the positive feedback received in terms of the business transacted and thanked everyone for their attendance.

[The meeting ended at 10.37 am]