

MINUTES OF PREVIOUS MEETING

AUDIT COMMITTEE

FRIDAY 12 JANUARY 2018 AT 10.05 AM

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

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

ALSO

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

Deputy Leader, and Finance, Governance and Resources Portfolio Holder

AUC.01/18 CHAIRMAN'S COMMENTS

The Chairman welcomed all those present to the first meeting of the Committee in the New Year.

AUC.02/18 APOLOGY FOR ABSENCE

An apology for absence was submitted on behalf of Councillor S Sidgwick.

AUC.03/18 DECLARATIONS OF INTEREST

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

AUC.04/18 PUBLIC AND PRESS

RESOLVED – That the Agenda be agreed as circulated.

AUC.05/18 MINUTES OF PREVIOUS MEETING

The Minutes of the meeting of the Audit Committee held on 27 September 2017 were submitted.

RESOLVED – That the Minutes of the meeting of the Audit Committee held on 27 September 2017 be agreed as a correct record and signed by the Chairman.

AUC.06/18 MINUTES OF BUSINESS AND TRANSFORMATION SCRUTINY PANEL

The Minutes of the meetings of the Business and Transformation Scrutiny Panel held on 14 September, 26 October and 5 December 2017 were submitted for information.

RESOLVED – That the Minutes of the meetings of the Business and Transformation Scrutiny Panel held on 14 September, 26 October and 5 December 2017 be noted and received.

AUC.07/18 EXTERNAL AUDIT PROGRESS REPORT AND SECTOR UPDATE

The Chief Finance Officer referenced the public sector audit appointments process, informing the Committee that it was announced on 19 December 2017 that Grant Thornton had been awarded the contact for the next five year period. The appointment did not include Housing Benefit certification and a separate county-wide procurement process was being undertaken on that aspect.

Members recognised the good working relationship between Grant Thornton and the City Council; commented upon the positive nature of the appointment decision; and congratulated Grant Thornton on their success.

The Associate Director (Grant Thornton) summarised the procurement process, explaining that Grant Thornton was now the largest external audit provider across the public sector in England. The external audit team would be unchanged and they were delighted with the outcome.

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

The Associate Director summarised the introductory information and progress at December 2017 in terms of the Financial Statements Audit; Value for Money and other areas, together with the Audit Deliverables (pages 43 - 45 of the document pack referred). He was confident that the Council could achieve an earlier close down of the accounts (deadline of July 2018) again this year.

The Audit Manager (Grant Thornton) then presented in some detail the Sector Update which provided an up-to-date summary of emerging national issues and developments. She highlighted the availability of Grant Thornton publications referencing in particular the Commercial Healthcheck: commercial investments and governance, copies of which had been circulated to Members.

Attention was further drawn to the main changes to the Code of Practice on Local Authority Accounting; and the consultation currently being undertaken by DCLG with local authorities and other interested parties on proposed changes to the prudential framework of capital finance.

The Chairman appreciated Grant Thornton's input on the wider perspectives alluded to, together with the updates which were very beneficial to the Committee.

RESOLVED – That the Audit Committee noted and received Grant Thornton's audit progress report and sector update for the year ending 31 March 2018.

AUC.08/18 EXTERNAL AUDIT CERTIFICATION WORK 2016/17

The Audit Manager (Grant Thornton) presented the final version of Grant Thornton's Letter setting out the findings from their certification work for Carlisle City Council for the year ended 31 March 2017.

The Letter recorded that Grant Thornton was required to certify the Housing Benefit subsidy claim submitted by the City Council. That certification typically took place six to nine months after the claim period and represented a final but important part of the process to confirm the Council's entitlement to funding. The Housing Benefit subsidy claim for the financial year 2016/17, which had £27.2 million of subsidy claimed had been certified ten days in advance of the national deadline. Further details of the claims certified were as set out at Appendix A.

The Audit Manager (Grant Thornton) highlighted the two errors in income testing from their certification work, noted at Appendix A. A qualification letter was required to report the income testing errors to the Department of Work and Pensions but, as one error identified resulted in an underpayment and another had nil impact on benefit, no extrapolation table of the potential error was required. It was not anticipated that the DWP would require the Council to undertake further work or provide assurances on the errors identified.

There were other areas of error noted in 2015/16 which required external audit to carry out extended testing in 2016/17. The areas related to an incorrect rent value in an assessment and incorrect overpayment classifications. The Audit Manager (Grant Thornton) was pleased to report that their initial and extended testing in 2016/17 did not raise any issues in those two areas. Therefore, no specific testing of those would be required in the coming year.

The indicative fee for 2016/17 for the Council was based on the final 2014/15 certification fees, reflecting the amount of work required by the auditor to certify the Housing Benefit subsidy claim that year. The indicative scale fee set by PSAA for the Council for 2016/17 was £14,093. Since the work to certify the 2016/17 was broadly similar to the level of work required in 2014/15 no additional fee was, at this stage, required. Grant Thornton may revisit that should the DWP require additional work to be undertaken in any areas noted in their qualification letter. Further detail on the fee was set out at Appendix B.

In conclusion, the Associate Director and the Audit Manager (Grant Thornton) stated that the letter represented a very positive outcome for the Council.

The Chairman echoed those sentiments, noting the improvements made since last year.

RESOLVED – (1) That the Certification Work Report 2016/17 be received and the positive position noted.

(2) That the appreciation of the Audit Committee be conveyed to the Revenues and Benefits Operations Manager for the training and quality checks undertaken over the past year.

AUC.09/18 FINAL ACCOUNTS PROCESS 2017/18

The Deputy Chief Finance Officer submitted report RD.38/17 providing information on the 2017/18 Final Accounts process.

The Chief Finance Officer reminded Members that the 2016/17 Annual Audit Findings Report, considered by the Committee on 31 July 2017, 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 was as recorded at Section 2.1 of the report.

Members were further advised that there were no significant changes to the 2017 Code of Practice on Local Authority Accounting.

The Deputy Chief Finance Officer added that the existing Accounting Policies would be reviewed to reflect the changes in the 2017 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 2017/18 Accounts. Any changes required following review would be reported to the Committee in March 2018.

It was proposed that a training session (for Members) be held in June / July 2018 in order to facilitate their understanding of the Accounts; the accounting policies; and the main changes required as a result of the 2017 Code of Practice.

The Deputy Chief Finance Officer then responded to Members' questions in the following terms:

- What was the current position in terms of heritage assets (section 4.0.11 referred) and was it updated each year?

A full re-valuation of the Council's heritage assets had been undertaken in 2014 by Bonhams of London. That was an extensive exercise and had resulted in updated valuations. All assets were accounted for and shown on the balance sheet.

Although a re-valuation of the entire portfolio was no longer a requirement for accounts purposes under the Code, the Tullie House collections were reviewed and any changes taken into account.

- What was the difference between borrowing / interest rates (Section 2.1, recommendation 5 referred)?

The borrowing requirement related to refinancing of the Stock Issue Loan.

- A Member sought clarification regarding ownership of the statue at the Crown Courts.

The statue was the responsibility of the County Council and fell within their property portfolio.

- Discussions were currently underway with the Auditors / a formal response on their technical view awaited as regards the authority's rationale and workings for the proposed 2017/18 Minimum Revenue Provision 'payment holiday' for previously charged MRP. Would the Council need to change its approach moving forward?

It was not anticipated that a change in approach was required.

The Associate Director added that Grant Thornton would work with the Council on that aspect.

RESOLVED – (1) That the Audit Committee noted the content of Report RD.38/17; and had considered the accounting policies to be used in the preparation of the 2017/18 Accounts.

(2) That it be noted that any changes required to the existing Accounting Policies to reflect the changes in the 2017 Code of Practice would be reported to the March 2018 meeting of the Committee.

AUC.10/18 INTERNAL AUDIT PROGRESS QUARTER 3 – 2018/19

The Designated Head of Internal Audit submitted report RD.39/17 providing an overview of the work carried out by Internal Audit in the third quarter of 2017/18.

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

Three audit reviews and two follow up reviews had been completed in the third quarter: Audit of Section 106 Agreements; Audit of Talkin Tarn and Boathouse Tea Rooms; Audit of Public Health and Safety / Enforcement; Audit follow up of Housing Improvements (Homelife Scheme); and Audit follow up of Carlisle Enterprise Centre. 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, in order to provide an effective Internal Audit service, there needed to be an effective measure of the performance it achieved. The table at paragraph 3.1 showed progress against the indicators agreed for 2017/18.

The Chairman noted that the commentary in relation to the Indicator concerning draft reports issued by agreed deadline recorded that no information was available (specific deadlines currently not set). She questioned whether the position would be reviewed next year.

The Designated Head of Internal Audit responded that the matter would be reviewed, in addition to which he would discuss it with CIPFA.

Speaking on the issue of audit recommendations, the Designated Head of Internal Audit informed Members that Appendix 2 showed a summary position of outstanding audit recommendations and progress made against implementation thereof.

Once the agreed implementation date had passed, Internal Audit would ask the responsible officer for an update on progress. The responses would 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.

He was pleased to report that the actions highlighted in red on the audit follow-up spreadsheet had now been implemented.

In accordance with the Public Sector Internal Audit Standards the Internal Audit department was required to have a full external assessment of compliance with the Audit Standards. Assessments must be done at least once every five years by a qualified, independent assessor from outside the organisation. The last review was performed in 2013 by Grant Thornton, covering the Shared Internal Audit Service. Results were reported to the Audit Committee on 24 January 2014.

Members of the Audit Committee also requested that a review be undertaken on the provision of the Internal Audit Service following the termination of the Audit Shared Service arrangements.

Following a procurement exercise the City Council had appointed CIPFA to carry out a review in 2018. A preliminary readiness review had been arranged for late January 2018. At that stage the assessor would identify and report to the Council areas for improvement and identify any gaps in the audit process. A full assessment would then be performed in April 2018, with findings from the review being reported to the Audit Committee in 2018/19.

The Designated Head of Internal Audit indicated that the Principal Auditor would provide an overview of the completed audit reviews alluded to, which had received a reasonable or substantial assurance opinion.

The Principal Auditor then outlined, in some detail, 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 Section 106 Agreements (Reasonable Assurance Level)

- Paragraph 5.1.3 recorded that the Council only had one Section 106 Monitoring Officer in post responsible for ensuring the delivery of such Section 106 obligations. On occasion items had not been progressed in a timely manner. Was the Deputy Leader, and Finance, Governance and Resources Portfolio Holder confident that sufficient resources were in place / other members of staff were being trained to cover periods of absence?

The Deputy Leader, and Finance, Governance and Resources Portfolio Holder explained that extensions may have arisen due to the complexity of certain Section 106 Agreements. He had requested a list detailing the updated position and acknowledged that there was still work to do. The Section 106 Monitoring Officer post was reflective of the Council's position. He was satisfied by the resources currently in place at Officer and Member level.

- The agreed action at Recommendation 1 of the Management Action Plan related to the establishment of a procedure and communication protocol for the monitoring / delivery of Section 106 Agreements, building on the work drafted by Policy and Performance. Would the implementation date (1 April 2018) be adhered to?

The Principal Auditor advised that procedures were being put in place, in addition to which a follow-up of the recommendations would be undertaken.

- A Member commented upon the monitoring process for implementation of the recommendations contained within the Action Plan, and questioned whether an update report could be provided immediately after the 1 April 2018 deadline.

The Member also suggested that a list be provided detailing how many Section 106 Agreements had been approved through the planning process in order to facilitate monitoring.

The Chairman reminded the Member that the audit review had been given a reasonable assurance rating, and that the Committee would receive a follow-up of recommendations implemented in due course. It may also be possible to ask Scrutiny to look at Section 106 Agreements moving forward.

On the latter point, the Deputy Leader referenced the position regarding maintenance of green spaces, together with the provision of capital funding.

The Chief Finance Officer added that the income received via Section 106 Agreements was monitored and reported as part of the quarterly monitoring reports submitted to the Executive. Members could take assurance from the Corporate Director of Economic Development's comments recorded on page 109 of the document pack.

- A Member expressed concern that the issues identified during the audit review may have arisen due to pressures upon staff.

The Chairman welcomed the good and comprehensive audit report, indicating that the Section 106 Working Group could be requested to keep an overview moving forward.

Audit of Talkin Tarn and Boathouse Tea Rooms (Reasonable Assurance Level)

- This was a good and in depth audit, the most significant issue being around health and safety. The risk exposure and impact upon the wellbeing of the Council and members of staff was of concern. The staffing issues with regard to seasonal and lone workers must be addressed and monitoring undertaken. A Member suggested that a calendar of reviews should be put in place.

Was any training in place to assist officers in the production of documentation to support the monitoring of the Service Plans (recommendation 1 referred)?

The Corporate Director of Governance and Regulatory Services emphasised that the City Council owned Talkin Tarn and was not operating as a landlord.

- A Member indicated that she could see no evidence that risk assessments were in place, adding that such assessments should be undertaken and reviewed on a three yearly basis.

In response, the Corporate Director of Governance and Regulatory Services summarised the Council's corporate risk management arrangements, confirming that the systems were in place to facilitate appropriate reasonable monitoring. He added that the audit recommendations arising from the review would result in real improvements in the operation of Talkin Tarn.

Audit of Public Health and Safety / Enforcement (Reasonable Assurance Level)

The Principal Auditor indicated that he would review the definitions for the audit assurance levels moving forward and report the outcome to the Committee.

- Data protection was a theme throughout the reports which comprised the document pack. It was pleasing to note that it had been identified as an issue and that steps were being taken to ensure compliance with the General Data Protection Regulation.

The Corporate Director of Governance and Regulatory Services outlined the significant work being undertaken with regard to data protection, together with the progress made towards the establishment of an Information Officer post.

- A Member referenced the areas for improvement – the first bullet point (audit testing highlighted that the Accident Reporting procedures need to be updated). He sought clarification of the current position on that important issue.

In response, the Corporate Director of Governance and Regulatory Services advised that there were three responsible bodies, namely the Council; the Health and Safety Executive (HSE); and the Care Quality Commission (CQC). When an accident occurred the appropriate body must be notified. It was noted during the audit that a national issue existed in reporting incidents to the CQC, the matter was being addressed through the appropriate liaison networks and temporary arrangements had been agreed with the HSE to reallocate CQC incident reporting.

Audit follow up of Housing Improvements (Homelife Scheme) (Substantial Assurance Level)

- With the exception of recommendation 11 (which was in progress) all of the recommendations had been actioned. That demonstrated the proactive nature of the response by Managers.

The Chairman commented upon the very positive follow-up review, and expressed appreciation of the hard work undertaken. She congratulated the Corporate Director of Governance and Regulatory services on the achievement of a substantial assurance opinion.

Audit follow up of Carlisle Enterprise Centre (Substantial Assurance Level)

- A Member noted that the implementation date for recommendation 5 (page 183 of the document pack) was 31 March 2017 and that the action was 'in progress'. She sought clarification of progress achieved.

The Audit Manager replied that work on the agreed action had commenced and was ongoing.

The Corporate Director of Governance and Regulatory Services commented that, although Internal Audit remained independent, there was a real and noticeable desire to add value to the services provided by the authority through constructive discussions with Officers as part of the audit review process.

The Chairman agreed that the in-house Internal Audit Service seemed to be working well.

RESOLVED – That the Audit Committee:

- (1) Noted the progress against the Audit Plan for 2017/18 set out within Report RD.39/17.
- (2) Received the final audit reports outlined in paragraph 2.2, subject to the following:
 - (a) The comprehensive audit review of Section 106 Agreements be welcomed; and the Section 106 Working Group requested to keep an overview of the position in terms of resources moving forward.
 - (b) The Audit Committee welcomed the comprehensive audit review of Talkin Tarn and the Boathouse Tearooms, which would facilitate the operation of Talkin Tarn; noted that the issues identified were being addressed and that the Council was aware of them.
 - (c) The Committee noted the substantial assurance ratings in respect of the follow-up reviews of the Homelife Service and Carlisle Enterprise Centre, and was appreciative of the hard work undertaken.

**AUC.11/18 DRAFT TREASURY MANAGEMENT STRATEGY STATEMENT,
INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION
STRATEGY 2018/19**

The Deputy Chief Finance Officer submitted report RD.37/17 setting out the Council's draft Treasury Management Strategy Statement for 2018/19 in accordance with the CIPFA Code of Practice on Treasury Management. The draft Investment Strategy and the draft Minimum Revenue Provision (MRP) Strategy for 2018/19 were incorporated as part of the Statement, as were the Prudential Indicators as required within the Prudential Code for Capital Finance in Local Authorities.

Members were informed that:

- The Council had revised its MRP Policy in 2017/18 to provide for MRP on a 3% straight Line basis going forward, which would continue this year.
- CIPFA was currently conducting a review of the Treasury Management Code of Practice and the Prudential Code focusing, in particular, on non-treasury investments and especially on the purchase of property with a view to generating income. Such purchases could involve undertaking external borrowing to raise the cash to finance those purchases, or the use of existing cash balances. Both actions would affect treasury management. As finalised revised codes were not expected

until December at the earliest, it may be necessary to review the TMSS once the final guidelines were issued and any implications on the Council's position was known.

- The Council was not currently expecting to have any recourse to borrowing externally in 2018/19, but any significant capital expenditure for example on new leisure facilities may facilitate a change.

The Executive and the Business and Transformation Scrutiny Panel had considered the matter on 18 December 2017 and 4 January 2018 respectively. Excerpts from the Minutes of those meetings were also submitted (EX.135/17) and (BTSP.07/18) referred.

Members were asked to note and comment upon the proposed Treasury Management Strategy for 2018/19.

The undernoted issues / questions were raised in discussion:

- The Business and Transformation Scrutiny Panel had requested a training or briefing session to facilitate their understanding of the document. Had that been arranged?

The Deputy Chief Finance Officer replied that the training would take place at 10.00 am on 25 January 2018, with the focus primarily being on borrowing / the Minimum Revenue Provision Strategy. The remaining elements would be looked at later in the year.

- The risks to current forecasts for UK gilt yields and PWLB rates, identified on page 200 of the document pack, were of particular interest.
- The chart at section 5.4 showed the level of cash resources the Council was anticipated to hold over the same period. A Member sought further explanation of the deficit from 2021 – 2023.

In response, the Deputy Chief Finance Officer explained that the graph showed that the Council had a borrowing requirement in those years. The figures were based upon the £19.5 m included in the draft Executive Budget Proposals issued for consultation on 18 December 2017. The charts would be amended pending a decision being taken on the matter.

- What financial planning period would be prudent in terms of the Sands Centre redevelopment?

The Deputy Chief Finance Officer outlined the anticipated funding options for the scheme, emphasising that many complex factors required to be taken into account.

The Chief Finance Officer added that Executive approval for borrowing was in place and had been for the last eighteen months. Consideration would require to be given to the available options prior to any decision being taken.

The Chairman expressed a preference for terms (e.g. Fed and DCLG) to be recorded in full within the report, in response to which the Deputy Chief Finance Officer undertook to amend the report accordingly.

The Chairman commended the Deputy Chief Finance Officer for what was a good and interesting report.

RESOLVED – That, subject to the observations detailed above, the Treasury Management Strategy Statement, Investment Strategy and Minimum Revenue Provision Strategy 2018/19 be noted.

**AUC.12/18 TREASURY MANAGEMENT SEPTEMBER 2017 AND FORECASTS
FOR 2018/19 TO 2022/23**

The Deputy Chief Finance Officer presented report RD.30/17 providing the regular quarterly summary of Treasury Management Transactions for the second quarter of 2017/18, together with budgetary projections for 2018/19 to 2022/23.

Interest receivable was slightly below expectations due to lower than forecast average cash balances and a lower rate of return being achieved on treasury investments when compared to when the budgets were set. 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 4.60%

The Executive had, on 20 November 2017, received Report RD.30/17 and the projections for 2018/19 to 2022/23 incorporated into the Budget reports considered elsewhere on the Executive Agenda (Minute EX.119/17 referred).

Speaking in response to Members' questions, the Deputy Chief Finance Officer clarified that:

- The base treasury management estimates included £15,000 for sector; the contract figure being £11,000.

The Chairman asked that 'Sector' should be referred to as 'Link Asset Services' in future to aide understanding.

- Procedures adopted to map cash flow more accurately and ensure better forecasting meant that overnight borrowing had not been needed in recent years.

RESOLVED – That Report RD.30/17 be noted.

[The meeting ended at 11.20 am]