

MINUTES OF PREVIOUS MEETING

AUDIT COMMITTEE

THURSDAY 26 SEPTEMBER 2013 AT 10.05 AM

PRESENT: Councillor Ms Patrick (Chairman), Councillors Bowditch, Earp (from 10.15am), Ms Franklin (as substitute for Councillor P Atkinson), Mrs Mallinson, Nedved and Whalen (as substitute for Councillors Mrs Atkinson)

OFFICERS: Director of Governance
Financial Services & HR Manager
Chief Accountant
Audit Manager

ALSO

PRESENT: Ms Jackie Bellard (Director, Grant Thornton); and
Mr Richard McGahon (Manager, Grant Thornton)

AUC.44/13 APOLOGIES FOR ABSENCE

Apologies for absence were submitted on behalf of Councillor Mrs Atkinson, Councillor P Atkinson and Mr Crossley, Deputy Chief Executive.

AUC.45/13 DECLARATIONS OF INTEREST

Councillor Mrs Mallinson declared an interest in accordance with the Council's Code of Conduct in relation to any discussion regarding Riverside Carlisle or Cumbria County Council. Her interest related to the fact that she was a Member of Cumbria County Council and a City Council representative on the Riverside Carlisle Board.

AUC.46/13 MINUTES

The Minutes of the meeting of the Audit Committee held on 22 July 2013 were submitted.

Referring to AUC.38/13 the Chairman thanked the Chief Accountant for the briefing note on the Minimum Revenue Provision and asked that it be circulated to all Members of the Resources overview and Scrutiny Panel. She also thanked the Manager (Grant Thornton) for the information he had provided.

RESOLVED – That the Minutes of the meeting of the Audit Committee held on 22 July 2013 be agreed as a correct record and signed by the Chairman.

AUC.47/13 MINUTES OF RESOURCES OVERVIEW AND SCRUTINY PANEL

The Minutes of the meetings of the Resources Overview and Scrutiny Panel held on 18 July and 29 August 2013 were submitted for information. The Chairman acknowledged the improvement to the Council's sickness absence levels.

RESOLVED – That the Minutes of the meetings of the Resources Overview and Scrutiny Panel held on 18 July and 29 August 2013 be noted and received.

AUC.48/13 FINANCIAL RESILIENCE 2012/13

The Manager (Grant Thornton) reported that Grant Thornton's work supporting their Value for Money (VfM) conclusion, as part of the statutory external audit, included a review to determine whether the City Council had proper arrangements in place for securing financial resilience.

The Manager commented that, in so doing, they had given consideration to whether the Council had robust financial systems and processes in place to manage its financial risks and opportunities, and to secure a stable financial position that enabled it to continue to operate for the foreseeable future. The definition of "foreseeable future" for the purposes of the review was twelve months from the date of the report.

The review of the Council's financial resilience had included consideration of:

- Key indicators of financial performance;
- Its approach to strategic financial planning;
- Its approach to financial governance; and
- Its approach to financial control

He outlined in detail each of the above areas, details of which were set out within the report.

The Manager further explained the definitions applicable to the red/amber/green (RAG) rating which had been used as part of the review. He added that overall the City Council had been assessed as GREEN, the conclusion being that whilst the Council had faced, and continued to experience significant financial pressures and risks, its current arrangements for securing financial resilience were satisfactory.

The Manager highlighted the need for the Council to improve its profiling and delivery of its capital budget. The Financial Services & HR Manager informed the Committee that work was being undertaken to change the way capital bids were programmed and that the money would not be released from earmarked reserves until the business plan and final details were known, at which point the scheme would be included within the Capital Programme.

In response to a question the Manager (Grant Thornton) confirmed that careful consideration would have to be given by the Section 151 officer to identify the risks if a decision would result in a further reduction of the Council's General Fund balance.

Members felt that the Amber rating for the Adequacy of planning assumptions was inaccurate and did not match the Amber criteria set out in the report as the outcome was not in the Council's control. The Director (Grant Thornton) understood the Committees concerns and reiterated the need for Members to be aware of the challenges ahead.

The Manager (Grant Thornton) drew Members attention to the need for clear arrangements to be in place to report performance against the Carlisle Plan 2013-16 to enable members of the public to access the information and assess performance. The

Chairman suggested that the performance be monitored through the Annual Governance Statement for transparency.

RESOLVED – 1) That the Financial Resilience report be received and noted.

2) That the monitoring of the Capital Programme process be strengthened.

AUC.49/13 AUDIT FINDINGS REPORT 2012/13

The Director (Grant Thornton) presented a report highlighting the key matters arising from their audit of the Council's financial statements for the year ended 31 March 2013. 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 260 (ISA).

The Director (Grant Thornton) informed Members that, in the conduct of the audit, she had not had to alter or change their planned audit approach, communicated to the Committee in the Audit Plan dated June 2013.

She explained that the audit was substantially complete and, subject to satisfactory clearance of outstanding matters, she planned to issue an audit report including an unqualified opinion on the financial statements. It was further her intention to issue an unqualified Value for Money conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in the use of its resources.

The Director (Grant Thornton) expected to complete the outstanding work and planned to issue her opinion on the accounts by 27 September 2013. The Director also intended to complete work in respect of the Whole of Government Accounts (WGA) so that she could give her certificate to formally close the audit.

Members' attention was drawn to the issues that the Committee should consider prior to completion of the audit.

The Director (Grant Thornton) further outlined:

- the two presumed significant risks applicable to all audits under auditing standards (set out on page 9 of the report);
- details of Grant Thornton's response to the other identified risks of material misstatement were provided (page 10 referred);
- their consideration of accounting policies, estimates and judgements;
- misclassification and disclosure changes; and
- internal controls

A Member raised concerns that the red status of the internal controls on page 88 of the report was incorrect and did not match the description on page 4 of the report. The Manager (Grant Thornton) clarified that the classification for that particular assessment was also set out on page 88 of the report. He explained that the misclassification error was for £1.2m and had the potential to become a material error hence the red assessment.

The Financial Services & HR Manager informed the Committee that discussions had taken place regarding the recommendations set out in the action plan with management's response being included. Monitoring of the actions would form part of next year's final accounts and issues that the Financial Resilience report had picked up would be included in this year's budget and performance monitoring processes.

The Director (Grant Thornton) thanked all staff involved in the audit process for the support and responses received.

RESOLVED – (1) That the Audit Committee had considered the Audit Findings Report for the year ended 31 March 2013 and was pleased to note that Grant Thornton expected to issue an unqualified audit opinion on the financial statements; that the Council had proper arrangements to secure economy, efficiency and effectiveness in the use of its resources; and the Director (Grant Thornton) also planned to issue her Certificate by 27 September 2013.

(2) That the Action Plan be noted and brought back to the Audit Committee for monitoring purposes.

(3) That the thanks of the Committee be conveyed to all staff involved in the audit for their hard work.

AUC.50/13 LETTER OF REPRESENTATION 2012/13

The Chief Accountant submitted report RD.43/13 attaching a Letter of Representation for 2012/13.

The report recorded that the audit of the Statement of Accounts for 2012/13 was substantially complete with the Auditors' Audit Findings Report (ISA260) being considered elsewhere on the Agenda. Following approval of that report, the Auditors would issue their formal opinion and the audit process for 2012/13 would be complete.

However, in accordance with Auditing Standards, a Letter of Representation must also be considered and approved by the Audit Committee prior to the Audit Opinion being provided. Once approved it would be signed by the Director of Resources on behalf of the City Council.

RESOLVED – (1) That the Audit Committee approved the Letter of Representation for 2012/13.

(2) That the Director of Resources be authorised to sign the same on behalf of the Council.

AUC.51/13 STATEMENT OF ACCOUNTS 2012/13

The Chief Accountant submitted report RD.44/13 concerning the Council's Statement of Accounts 2012/13. Copies of the Accounts, which had been subject to a three month audit process, (commencing July and with a statutory completion date of 30 September 2013) had been circulated.

He clarified for Members the one minor amendment to page 194 of the report. The "County Council Pension Fund" to be changed to "Cumbria Pension Fund"

He also reported that the Audit was substantially complete with the Auditor's Audit Findings Report (ISA260) being considered elsewhere on the Agenda. That report provided 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, together with any amendments required to the Accounts which must be reported and approved by Members of the Audit Committee.

The Chief Accountant added that there were several recommendations made by the Auditor relating to the disclosure issues raised in the Audit Findings Report (ISA260), and that the completed Action Plan would be reviewed and closely monitored during 2013/14.

The Committee was asked to approve the 2012/13 Statement of Accounts subject to the verbal amendment, noting that also included the amended Annual Governance Statement.

The Chairman expressed thanks to the Financial Services Team, their hard work was valued and appreciated.

The Committee agreed to establish a Working Group to consider how the Annual Governance Statement could be improved in the future. Members would be contacted via email to establish the Group. The Financial Services Manager agreed to add Annual Governance Statement training to the Ethical Governance Programme.

RESOLVED – That the Audit Committee approved the 2012/13 Statement of Accounts subject to correction of the amendment detailed above, noting that also included the Annual Governance Statement.

The Director (Grant Thornton) and the Manager (Grant Thornton) left the meeting.

AUC.52/13 CODE OF CORPORATE GOVERNANCE - ACTION PLAN

The Financial Services & HR Manager submitted report RD.45/13 updating Members on the Council's governance arrangements and its systems of internal control in line with CIPFA's Good Governance Framework.

The Financial Services & HR Manager explained that the Annual Governance Statement for 2012/13 had highlighted one area of weakness (related to contract monitoring) in the Council's governance arrangements, together with the progress made against that area (Appendix A referred).

She added that there were no new significant issues which needed to be brought to Members' attention, nor were there any new areas of risk arising from the Audit reviews or from the Risk Registers that needed to be drawn to Members' attention.

In conclusion, the Financial Services & HR Manager asked that the Committee note the Action Plan attached to the report, together with the current position relating to the issue identified.

The Committee raised concerns regarding the lack of corporate overview and ownership of the contract monitoring within the Local Environment Directorate. There were also concerns raised regarding the skills framework and training of staff to carry out the contract monitoring role. The Members tasked the Director of Governance to write to the Director of Local Environment to bring to her attention the Audit Committee's concern as

part of the ongoing consultation process. The Members were clear that their comments were part of this process and it was a matter for the Director of Local Environment as to what arrangements she put in place given that this responsibility was hers.

The Chairman asked that the names of the two significant partnerships be included in the Annual Governance Statement Action Plan.

RESOLVED – That the Code of Corporate Governance Action Plan and the current position relating to the issue which has been identified be noted.

AUC.53/13 INTERNAL AUDIT PROGRESS REPORT 2013-14 (NO. 2)

The Audit Manager submitted report RD.42/13 summarising the work carried out by Internal Audit since the previous report to Committee on 22 July 2013 and detailing progress made on delivery of the approved Audit Plan.

The Audit Manager reminded Members that the 2013/14 Strategic and Annual Risk Based Audit Plans were presented to the Audit Committee on 15 April 2013 (Report RD.06/13 referred). The current position of the Plan up to the end of June 2013 was illustrated at Appendix A for Members' assistance.

The Plan called for 540 direct audit days to be delivered in 2013/14. 202 days (37%) had been delivered in the first quarter period. Details of the areas upon which time had been spent were provided.

Members were asked to note the progress made against the agreed 2013/14 Audit Plan.

Turning to the matter of previous Audit Recommendations, the Audit Manager reported that 3 methods were used by Internal Audit to ensure that all previous recommendations had been followed up, namely central monitoring; detailed audit follow ups; and cyclical audit reviews. She reported that there were 19 open recommendations; 6 were in progress and 13 which had insufficient information provided. With regard to the Data Quality Audit, the officer had provided Audit with a comprehensive written response which stated that most of the actions had been completed within the necessary timescales but the information had not been entered into the Covalent. The report would be updated to reflect the completed actions for the next meeting of the Committee.

The Audit Manager had been assured that the actions under the Bereavement Services Audit had been completed and she was awaiting further information to update the report.

The Committee stressed the importance of keeping the Covalent system updated in a timely fashion.

The Audit Manager further indicated that there were 4 audit reports for consideration by Members at this time. Guidance on the grading of audit recommendations, the audit follow up procedure and audit assurance ratings was attached at Appendix C.

She then outlined in some detail the content and ratings attached to the audit reports in respect of Fixed Assets; Creditor Payments; Carlisle and Currock Cycleway Project; and IT Business Continuity Planning. Copies were appended to the report.

The Committee gave in depth consideration to the completed audits, raising the following issues:

- Audit of Creditor Payments

The Financial Services & HR Manager reported that a reminder would be sent to all regarding recommendations 2 to 4 and the reminder would also direct staff to the Financial Procedure Rules. She added that the Corporate Purchasing System would affect the recommendations as many of the processes would become automated.

The Committee were concerned that officers were not complying with the Council's Financial Procedure Rules which could have an effect on the Council's budget. It was agreed that the Financial Services & HR Manager prepare a note for the Senior Management Team on the importance of the recommendations and informing them of the Committee's concerns.

- Audit of Carlisle and Currock Cycleway Project

There was concern that the project would not move forward and questioned the financing of the project and who had overall responsibility for it. The Audit Manager (Carlisle City) explained that the project sponsor was the Director of Local Environment. When funding was secured there would be a revised plan which would be considered by the Corporate Project Board.

- Audit of IT Business Continuity Planning

The Audit Manager drew Members attention to the IT Business Continuity Planning Audit which had a Partial Assurance evaluation. The main issue had been the lack of a comprehensive IT Continuity Plan which dovetails with the Corporate Business Continuity Plan. She stressed that parts of an IT Business Continuity Plan were in place and the IT service was supported by experienced staff. The lack of a comprehensive Plan had been acknowledged by the ICT Service and the IT team had been very reactive to the recommendations and established a Project Team to develop the Plan alongside other officers. She had also been informed that an Interim Business Continuity Plan had also been prepared.

Members had a number of questions regarding the IT Business Continuity Plan including who had ownership of the recovery plan, why it was not on the Risk Register, how did it tie in with the Corporate Business Continuity Plan and was there a budget for the recovery.

The Audit Manager informed the Committee that the IT Business Continuity Plan supported the Council's Corporate Business Continuity Plan; any budget required would depend on the scale of the disaster. Consideration was being given to including this matter on the Corporate Risk Register.

In conclusion, the Audit Manager requested that Members receive the report and note progress against the agreed 2013/14 Audit Plan.

RESOLVED – (1) That report RD.42/13 be received and progress made against the agreed 2013/14 Audit Plan referred to in Section 2 and as illustrated in Appendix A be noted.

(2) That the position on the follow up of previous audit recommendations, as outlined in Section 3, be noted.

(3) That the Audit Committee received the completed audit reports referred to in Section 4 of the report.

(4) That Senior Management Team reinforce the recommendations set out in the Audit of Creditor Payments to ensure officers were complying with the Council's Financial Procedure Rules.

(5) That the Audit Committee recommended that the progress regarding the delivery of the Carlisle and Currock Cycle Way project be regularly monitored by the Corporate Project Board.

AUC.54/13 TREASURY MANAGEMENT – APRIL TO JUNE 2013

The Chief Accountant submitted report RD.30/13 providing the regular quarterly summary of Treasury Management transactions for the first quarter of 2013/14, including the requirements of the Prudential Code.

He outlined the outstanding investments as set out in Appendix A3 in some detail and explained the colour coding system used by Sector, the Council's Treasury Advisors. He reported that due to the fall in interest rates the interest rate achieved on investments had significantly fallen they were, however, still above the base rate.

The Chief Accountant informed Members that the 'normal' risk score for investments was 3.5 and the Council's weighted average risk was at 3.8.

RESOLVED - That Report RD.30/13 be received and the good progress in terms of returns on monies invested be noted.

AUC.55/13 CORPORATE RISK MANAGEMENT

The Director of Governance presented report SD.05/13 providing an update on the Council's risk management arrangements. Details of the background and risk management and control environment were provided.

The Director of Governance informed Members that the Corporate Risk Register had been amended in line with the priorities contained within the Carlisle Plan 2013/15 and currently included eight corporate risks:

- Asset Business Plan – Disposal Strategy
- Asset Business Plan – Acquisition Strategy
- Delivering service objectives
- Income targets
- Addressing Carlisle's current and future housing needs
- Housing needs of vulnerable groups
- Workforce planning
- Improving industrial estate performance

Those risks are considered to be the significant risks in achieving the City Council's objectives for 2013/14. Each risk had been scored in accordance with the Council's risk matrix (in which the likelihood of any risk materialising is balanced against its potential impact) and mitigating actions identified for inclusion in the risk register which would be considered and scrutinised by the Resources Overview and Scrutiny Panel at their meeting on 10 October 2013.

Even with a sensible, reasonable and prudent approach to mitigation, the City Council was unable to eliminate risk completely and would be left with a residual risk. Such risk could be deleted from the Corporate Risk Register once the mitigating action had reduced the risk to an acceptable target level but they would continue to be monitored at service level via operational risk registers and, should the need arise, they may be escalated back on to the Corporate Risk Register.

In conclusion, the Director of Governance advised that there have been no risks identified through internal audit reviews which needed to be brought to Members' attention at this time.

The Committee considered a suggestion to amend the Corporate Risk register to include the name of the relevant Overview and Scrutiny Panel and agreed that the inclusion of the Panel would ensure matters were being scrutinised in the most appropriate manner.

RESOLVED – (1) That the Audit Committee had considered and noted the content of Report SD.05/13 as an indication of the continuing commitment and culture of sound governance arrangements for corporate risk management.

(2) That the Audit Committee agreed to receive reports on the effective development and operation of risk management on a six monthly basis.

(3) That the Audit Committee request that the Corporate Risk Register include the relevant Overview and Scrutiny Panel alongside the Portfolio Holder and Lead Officer.

[The meeting ended at 12.10pm]