

AUDIT COMMITTEE

THURSDAY 8 JULY 2021 AT 10.00AM

PRESENT: Councillors Birks, Bomford, Mrs McKerrell, Meller, Morton, Patrick and Shepherd (as substitute for Councillor Mrs Mitchell)

OFFICERS: Corporate Director of Governance and Regulatory Services
Corporate Director of Finance and Resources
Financial Services Manager (Deputy S.151) and Designated Head of Internal Audit
Principal Auditor

ALSO

PRESENT: Director, Audit (Grant Thornton)
Councillor Ellis, Deputy Leader, and Finance, Governance and Resources
Portfolio Holder

AUC.21/21 APPOINTMENT OF CHAIR

It was moved and seconded that Councillor Meller be appointed Chair of the Audit Committee for the 2021/22 Municipal Year.

It was moved and seconded that Councillor Patrick be appointed Chair of the Audit Committee for the 2021/22 Municipal Year.

Following voting, it was:

RESOLVED – That Councillor Meller be appointed Chair of the Audit Committee for the 2021/22 Municipal Year.

Councillor Meller thereupon took the Chair.

AUC.22/21 APPOINTMENT OF VICE-CHAIR

It was moved and seconded that Councillor Patrick be appointed Vice-Chair of the Audit Committee for the 2021/22 Municipal Year.

RESOLVED – That Councillor Patrick be appointed Vice-Chair of the Audit Committee for the Municipal Year 2021/22.

AUC.23/21 APOLOGIES FOR ABSENCE

An apology for absence was submitted on behalf of Councillor Mrs Mitchell.

AUC.24/21 DECLARATIONS OF INTEREST

In accordance with the Council's Code of Conduct the following declarations of interest were submitted:

Councillor Mrs McKerrell declared a Disclosable Pecuniary Interest in respect of item A.5 – Internal Audit Progress 2020/21 (March – June) – Internal Audit Report – Business Grants Covid 19 (Fraud). The interest related to her business being a recipient of a grant.

Councillor Birks declared a Registrable Interest in respect of item A.5 – Internal Audit Progress 2020/21 (March – June) – Internal Audit Report – Business Grants Covid 19 (Fraud). The interest related to her being a Trustee of Currock Community Centre which had received a grant.

Councillor Patrick declared a Registrable Interest in respect of item A.5 – Internal Audit Progress 2020/21 (March – June) – Internal Audit Report – Business Grants Covid 19 (Fraud). The interest related to her being a Trustee of Currock Community Centre which had received a grant.

AUC.25/21 PUBLIC AND PRESS

RESOLVED – That the Agenda be agreed as circulated.

AUC.26/21 MINUTES OF PREVIOUS MEETINGS

RESOLVED – 1) To note that Council, on 27 April 2021, received and adopted the minutes of the meeting held on 15 March 2021. The minutes were signed by the Chair.

2) That the minutes of the special meeting held on 20 May 2021 be agreed.

AUC.27/21 MINUTES OF BUSINESS AND TRANSFORMATION SCRUTINY PANEL

The Minutes of the meetings of the Business and Transformation Scrutiny Panel held on 1 April and 30 June 2021 were submitted for information.

RESOLVED – That the Minutes of the meetings of the Business and Transformation Scrutiny Panel held on 1 April and 30 June 2021 be noted.

AUC.28/21 AUDIT FEE LETTER 2020/21

The Director, Audit (Grant Thornton) presented the Audit Fee Letter 2020/21, informing Members that the City Council's proposed fee for 2020/21 was £66,733. The report contained sector updates; information on changes to the scale of fee; the key drivers for changes to the fee including the new Value for Money code parameters (VFM) moving towards a full review approach. The Director, Audit (Grant Thornton) noted that there had been an increase in fees across all public sector audits and that there were no local risk factors in respect of Carlisle City Council. Verification processes were still to be completed in respect of the fee.

An overview of the Redmond Review findings was provided and the Director, Audit (Grant Thornton) advised that the Ministry for Housing, Communities and Local Government (MHCLG) recognised the additional financial burden to local authorities as a result of the increased fees, and had allocated additional funding to Councils to help address this. Details of the allocation the Council would receive were not yet known.

In considering the Audit Fee Letter 2020/21, Members raised the following questions / comments:

A Member considered the increased fee to be a positive development as it would lead to a wider perspective and greater detail in respect of external auditing, she welcomed the change.

Did the Council have insurance coverage in relation to the competence of external auditors and the repercussions of findings made?

The Director, Audit (Grant Thornton), confirmed that within the Council's external audit contract there was a limited liability insurance of £2M.

In response to a question from a Member regarding the level of allocation from MHCLG in respect of audit fees, the Financial Services Manager confirmed that details were still awaited.

RESOLVED – That the Audit Committee noted and received the Audit Fee Letter 2020/21.

AUC.29/21 DRAFT STATEMENT OF ACCOUNTS 2020/21 – UPDATE REPORT

The Financial Services Manager (Deputy S.151) presented report RD.17/21 which provided a summary of the progress on the 2020/21 accounts and set out the outstanding work requiring completion prior to the publication of the draft accounts for 2020/21. It was anticipated that the Draft Statement of Accounts would be submitted to the 28 July 2021 meeting of the Committee.

Enhanced requirements in respect of ISA540 – Auditing Accounting Estimates and Related Disclosures, required auditors to understand and assess an entity's internal controls over accounting estimates. The Financial Services Manager (Deputy S.151) advised that the Draft Statement of Accounts were prepared with a significant degree of estimation in the following areas: Land and Building Valuations; Investment and Property Valuations; Depreciation; Fair Value Estimates (Financial Instruments and Investment Property); Pension Valuations; and, Provisions – Business Rate Appeal Provisions, Bad Debt Provisions.

A summary of estimates had been prepared for Grant Thornton (Appendix A) to the report, it detailed the areas of estimation and method/model used to make the estimate. The Financial Services Manager (Deputy S.151) indicated the areas where external experts had been used (Land and Building Valuations and Pension Valuations). He noted that they had been used by the Council previously to prepare estimates and that there had been no significant methodological changes detailed in the underlying assumptions.

In considering the report Members raised the following questions / comments:

In respect of estimates relating to property valuations was the short term and long-term position of any given property taken into account?

The Financial Services Manager (Deputy S.151) confirmed that accounting estimates factored in the state of a property at a given time. Using the Sands Centre Redevelopment as an example, he explained how a property under development would be recorded in the Statement of Accounts.

Was the Local Government Pension Scheme a Final Salary Scheme?

The Financial Services Manager (Deputy S.151) responded that in 2014 the Scheme had been amended to a career average format.

A Member thanked the Financial Services Manager (Deputy S.151) for the concision and clarity of his report which had assisted her understanding of the use of estimates in the preparation of the Accounts.

The Financial Services Manager (Deputy S.151) thanked the Member and emphasised the importance of the Committee understanding the estimates process.

The Chair thanked Officers for the training provided to Members the previous week on the use of estimates which had been very useful.

RESOLVED – 1) That the Audit Committee noted the current position on the Draft Statement of Accounts 2020/21 (RD.17/21).

2) That the Committee had been appropriately briefed on how accounting estimates were used in the preparation of the Statement of Accounts.

AUC.30/21 TREASURY MANAGEMENT OUTTURN 2020/21

The Financial Services Manager (Deputy S.151) submitted the Annual Report on Treasury Management (RD.07/21), as required under both the Financial Procedure Rules and CIPFA Code of Practice on Treasury Management.

The Financial Services Manager (Deputy S.151) highlighted, in particular the very good rate of return the Council had received on its investments, notably from the CCLA property fund and Bank of Scotland, both of which had provided returns above the current base rate. The Council's treasury advisors had commended the Council on realising such returns.

The Executive and the Business and Transformation Scrutiny Panel had considered the matter on 2 June and 3 June 2021 respectively and the decisions were set out in Minutes EX.48/21 and BTSP.41/21(c)

In considering the report Members raised the following questions and comments:

A Member congratulated Officers on the level of investment return achieved. She asked how rates of Council Tax collection had fared in the context of Covid 19?

The Financial Services Manager (Deputy S.151) noted that whilst collection rates had remained above 90%, they were below the target of 97%. However, as restrictions eased collection levels had begun to return closer to levels seen in the 2019/20 financial year.

Another Member noted that over the past year the Council had taken a gentler approach with debtors, she asked how they had responded to the Council reinstating its usual debt collection procedures.

The Corporate Director of Finance and Resources confirmed that a 'soft' approach to recovery had been implemented in the 2020/21 year. Since the return to usual debt collection practices no detrimental comments had been received as debtors accepted the need for them to make payment. For those experiencing difficulties paying, Officers would seek to agree appropriate terms for repayment. Council, at its meeting of 20 July 2021, would be asked to agree an earmarked reserve for Council Tax hardship funding.

RESOLVED – That Report RD.07/21 be noted.

AUC.31/21 INTERNAL AUDIT PROGRESS 2020/21 (MARCH – JUNE)

The Principal Auditor submitted report RD.10/21 providing an overview of the work carried out by Internal Audit since the previous Audit Committee (15 March 2021) to June 2021.

Eleven full audit reviews had been completed and were provided for consideration by Members: Debtors; Economic Development Major Funding – Governance; Homeless Accommodation (Part 2); Payroll; Electoral Registration; Environmental Strategy Baseline (Follow-Up); Business Grants Covid 19 (Fraud); Housing Benefits (including Revenue recovery); Driver Checks (Follow-Up); ICT Various Recommendations (Follow-Up).

In terms of risks, the Principal Auditor reported that findings from the individual audits would be used to update risk scores within the audit universe. All audit recommendations would be retained on the register of outstanding recommendations until Internal Audit was satisfied that the specific risk exposure was being managed.

RESOLVED – That the Audit Committee noted the progress on the 2020/21 Audit Plan as detailed in Report RD.10/21.

The Principal Auditor then outlined, in some detail, each of the above-mentioned audits in turn highlighting, in particular, the context; key points; and associated recommendations.

Members considered the following individual completed audit reviews:

Debtors

A Member commented that it was good to see service coming out of Covid 19 positively, she further commended the introduction of electronic invoices.

In response to a question from a Member, the Financial Services Manager (Deputy S.151) confirmed that recommendation 1 had been completed.

RESOLVED - That the Final Audit - Debtors report be received.

Economic Development Major Funding – (Governance)

In relation to recommendation 4 (para 5.1.7), a Member noted that at the Business and Transformation Scrutiny, Officers had provided assurances that the risk registers were kept by each department. Furthermore, the Scrutiny Panel had set up a Task and Finish Group which had recommended the use of KPI's on all major projects covering areas such as budgetary controls and time targets. She was concerned to see this recommendation and sought assurance that project managers were not completing risk registers in isolation.

The Corporate Director of Finance and Resources advised that a number of projects covered in the audit were supported by external funding streams, as such there would be quarterly output reports to the funding body. She undertook to liaise with the relevant Director on the matter of the reporting of internal KPI data.

The Principal Auditor noted that in relation to the first part of the recommendation he was assured that risk was being appropriately managed, but that data could be further developed within the risk register and that Internal Audit were encouraging Officers to share risk registers with wider audiences.

Regarding the reference in paragraph 5.1.4 to “...a dedicated resource for writing Power BI reports.” a Member asked whether that resource would be software or an Officer?

The Principal Auditor advised that it was anticipated that the additional resources would comprise both software and Officer resource.

The Corporate Director of Finance and Resources added that the Executive, on 5 July 2021, had made recommendations in relation to additional funding for the Borderlands Project Management Office which would be considered by Council on 20 July 2021.

A Member proposed that the minute excerpt relating to the Audit Committee's consideration of the internal audit of Economic Development Major Projects (Governance) be sent to the

Business and Transformation Scrutiny Panel for it to consider as part of its Task and Finish Group work on KPI's. The committee indicated its assent.

RESOLVED 1) That the Final Audit Economic Development Major Funding – (Governance) report be received.

2) That the minute excerpt AUC.26/21 Internal Audit Progress 2020/21 (March – June), Economic Development Major Funding – (Governance) be forwarded to the Business and Transformation Scrutiny Panel for it to consider as part of its Task and Finish Group work on KPI's.

Homeless Accommodation (Part 2)

A Member expressed concerns that supervision meetings with staff had not been formally recorded, she sought confirmation that the support had been provided, and suggested that the matter be referred to the relevant Scrutiny Panel.

The Corporate Director of Governance and Regulatory Services assured the Committee that supervisions had taken place and during the lockdown period that support had actually increased. However, the impact of Covid restrictions and the additional requirements it placed on the service had created issues with the formal recording of those supervisions.

In terms of referring the matter to a Scrutiny Panel, the Corporate Director advised that were Members to require further assurance as a result of the internal audit findings it was a matter for this Committee to consider.

The Principal Auditor added that the audit assurances that the supervisions had taken place, just that they had not always been documented.

The Member asked a further question regarding the provision of fire alarms in rooms at hostels and drug disposal procedure.

The Principal Auditor advised that those areas had not formed part of the internal audit.

RESOLVED – That the final audit report – Homeless Accommodation (Part 2) be received.

Payroll

A Member asked, given Council staff had been working from home, what measures were in place to protect individual's data used by the service.

The Principal Auditor responded that most staff, including payroll were working electronically, so hard copies of data were not ordinarily taken home. As part of the audit work questions were asked in relation to how data was collected and stored, and staff were advised not to leave personal information on desks at home.

The Chair noted that in November 2020 the Payroll team had moved from the Finance and Resources directorate to Community Services, he asked what had prompted the change.

The Corporate Director of Finance and Resources explained that the move had been agreed by the Senior Management Team as the Revenues and Benefits team had become part of her directorate. The payroll team was a part of the HR and Payroll team and were now managed day to day by the Deputy Chief Executive. She advised that as part of her S.151 duties she maintained an overview of payroll function.

RESOLVED – That the final audit report – Payroll be received.

Electoral Registration

A Member queried the implementation date for recommendation 7, as she considered it to be too long a time.

The Principal Auditor responded that a separate registration with the Information Commissioner's Office for the Electoral Registration Officer was a medium level recommendation and therefore was not a high risk. The matter may be actioned before the implementation date.

The Chair asked if portacabins were used only when needed by the service?

The Corporate Director of Finance and Resources confirmed that in normal years 17 portacabins were used, but this had been increased as a result of Covid restrictions. She further set out which elections the Council was able to recoup the cost of portacabin hire for.

A Member commended the Officers in Electoral Registration for their excellent work in delivering an election in the context of Covid 19 restrictions.

RESOLVED – That the final audit report – Electoral Registration be received.

Environmental Strategy Baseline (Follow-Up)

A Member asked for further detail on the baseline data values accuracy.

The Principal Auditor explained that there were defined methods for calculating carbon emissions, as some data was yet to be input it was possible that it may contain minor deviation(s).

The Member thanked the Officer and looked forward to a further update on the matter.

RESOLVED – That the final audit report – Environmental Strategy Baseline (Follow-Up) be received.

Business Grants Covid 19 (Fraud)

Councillor Mrs McKerrell, having declared a Disclosable Pecuniary Interest in the item of business, removed herself from the Chamber and took no part in the discussion nor determination of the matter.

A Member asked if a business had been overpaid a grant, by earning more than it had expected, how would those monied be recovered?

The Principal Auditor responded that as the grants were for a set amount no recovery would take place other than in the event of fraud being detected or where a business had not been eligible for the grant.

The Corporate Director of Finance and Resources noted that there were a number of business grants schemes offered by government which the Council disbursed the funds for. Were profit and loss to affect the award given the matter would be addressed by HMRC.

With reference to paragraph 5.2.4 of the report, Members asked whether the fraudulent applications had been registered on the national fraud database and reported to the Police?

The Principal Auditor confirmed that the information had been fed into the national fraud report but that the matter had not been pursued with the Police as no actual loss had been incurred and therefore it was difficult to prove fraud.

RESOLVED – That the final audit report – Business Grants Covid 19 (Fraud) be received.

Councillor Mrs McKerrell resumed her seat.

Housing Benefits (including Revenue recovery)

A Member asked if recommendation 3, which had an implementation date of 30 June, had been completed?

The Principal Auditor noted the medium recommendations were followed up six months after the completion of an audit. In the event of recommendation being completed prior to that, service managers were encouraged to advise the internal audit team.

The Chair asked whether the quarterly performance report to the Executive compared the service against national data?

The Principal Auditor confirmed that the reports compared data to internally agreed service standards.

In response to a question from the Chair on appraisals, the Corporate Director of Finance and Resources advised that the process was under review across the organisation and whilst amended working practices as a result of Covid 19 may have delayed some, she was confident that regular meetings had taken place with staff and managers.

RESOLVED – That the final audit report – Housing Benefits (including Revenue recovery) be received.

Driver Checks (Follow-Up)

In relation to recommendation 1, a Member asked if the i-Trent software could be used?

The Principal Auditor understood that the recommendation had not been actioned and that the services was considering ways of generating electronic auto-reminders. The Council's contract with i-Trent was currently being reviewed and it was understood that the software had the requisite functionality to provide that service.

A Member commented that she was pleased to see the progress detailed in the report. Regarding recommendation 4 that proposed Elected Member checks be carried out on a voluntary basis, she stated that she was keen to see Councillors involved in the process.

The Corporate Director of Governance and Regulatory Services acknowledged the Member's view. He noted that Officers of the Council were employees, but Elected Members were not, as such the Council had no powers to instruct a Member to travel anywhere on its business; Members travelled on their business as Elected Members. Therefore, it was not necessary for Members to be included in the process.

The Member responded that as Members were able to claim mileage expenses it was perhaps reasonable to ensure that they held a driving license.

The Corporate Director of Governance and Regulatory Services advised that a Member may claim mileage for a journey where they had not driven the vehicle.

RESOLVED – That the final audit report – Driver Checks (Follow-Up) be received.

ICT Various Recommendations (Follow-Up)

A Member requested that a further review be carried out as part of the coming year's work and that the ICT Manager be invited to a future meeting of the Committee to help Members further understand the risks associated with the audit findings. Another Member agreed the proposal.

The Principal Auditor confirmed a follow up with the service was planned in the coming year, furthermore he would liaise with the ICT Manager about attending a future meeting of the Committee.

A Member asked to what extent Councillors posed a risk of compromising the Council's IT network.

The Principal Auditor responded that any person with access to the Council's systems may potentially compromise the network, particularly if they were not up to date with the latest phishing attacks. As Councillors may be emailed by anyone it was possible they presented a greater risk.

The Chair noted that a number of IT training sessions for Member had been set up, he was surprised that they were not mandatory.

The Principal Auditor referred the Committee to page 271 of the document pack where it was noted that the Organisational Development Team were aware of the need to set up specific Elected Member IT training.

A Member proposed that that the minute excerpt relating to the Audit Committee's consideration of the internal audit of ICT Various Recommendations (Follow Up) be sent to the Members Learning and Development Working Group for it identify the training available. The proposal was seconded.

Members discussed mobile phone usage and contracts. The Principal Auditor advised that all mobile phone contracts for the Council were current.

RESOLVED – 1) That the final audit report – ICT Various Recommendations (Follow-Up) be received.

2) That the minute excerpt AUC.26/21 ICT Various Recommendations (Follow Up) be sent to the Members Learning and Development Working Group for it to identify the training available.

AUC.32/21 INTERNAL AUDIT PROGRESS 2020/21 (APRIL – JUNE)

The Principal Auditor submitted report RD.14/21 providing an overview of the work carried out by Internal Audit between April and June of 2021/22. The report also included information on progress against the agreed audit plan, performance indicators, previous audit recommendations and proposed amendments to the Internal Audit Plan.

In considering the report Members raised the following questions and comments:

A Member expressed concern that there had been no progress in relation to recommendation 5 of the City Centre audit regarding the issuing of pavement café licenses.

The Corporate Director of Governance and Regulatory Services explained that as part of measures to support businesses affected by restrictions relating to Covid 19, government had reduced local authority controls in that area.

A Member asked why outstanding issues remained in respect of recommendation 1 of the insurance internal audit?

The Principal Auditor responded that a reminder on the matter had been issued. The relevant Officer had advised that they were not comfortable with the matter being closed; it would be addressed as part of the next review.

The Corporate Director of Finance and Resources added that the matter would be discussed at the Risk Management Sub-Group and Senior Management Team. Were it to be identified that a third party did not have the appropriate insurance to deliver an event for the Council, the fallback position was that the event would not take place.

The Chair asked when the next review of the ICT service would take place.

The Principal Auditor advised that the review would be carried out towards the end of the year as time was needed to implement the current series of recommendations.

RESOLVED – That the Audit Committee

- i) noted the progress against the audit plan for 2021/22
- ii) noted the progress made on audit recommendations to date outlined in appendix B (RD.14/21)
- iii) approved the suggested amendments to the 2021/22 audit plan in section 5 of report RD.14/21.

AUC.33/21 INTERNAL AUDIT ANNUAL REPORT 2020/21

The Designated Head of Internal Audit submitted report RD.11/21, the purpose of which was to give his opinion on the effectiveness of the Council's arrangements for risk management, governance and internal control in accordance with the requirements of the Public Sector Internal Audit Standards (PSIAS)

The Designated Head of Internal Audit's opinion based on the completed audit work, was that Carlisle City Council's overall framework of governance, risk and internal control was reasonable and audit testing had demonstrated that controls were generally working effectively in practice. He confirmed that Internal Audit had maintained its independence during the year and commended the Principal Auditor and his team for delivering 88% of the planned work against the background of amended ways of working as a result of Covid 19 restrictions.

In his dual role as the Deputy S.151 Officer and Designated Head of Internal Audit, he could further confirm that his independence and that of Internal Audit had not been in any way diminished by that working arrangement (the External Quality Assessment 2018 and annual self-assessment confirmed that suitable arrangements were in place to maintain audit independence).

The Chair commended the work of the Internal Audit team for delivering an exceptional level of work given the circumstances in which they were required to operate in 2020/21.

RESOLVED – That the Audit Committee noted:

- (i) the progress achieved in 2020/21 in delivering the Audit Plan and the outcomes of completed audit reviews as set out at Appendix A;
- (ii) the Designated Head of Internal Audit's opinion of reasonable assurance on the Council's overall systems of governance, risk management and internal control for the year ended 31 March 2021;
- (iii) the Designated Head of Internal Audit's declaration of Internal Audit's independence as required by the mandatory PSIAS;
- (iv) the Designated Head of Internal Audit's declaration of conformance with the mandatory PSIAS;
- (v) The performance of the Internal Audit service as shown at Appendix B as set out in report RD.11/21.

AUC.34/21 TECHNICAL UPDATE AND CONSULTATION RESPONSES

The Financial Services Manager (Deputy S.151) provided an update on technical issues and external consultations relating to any financial or auditing matter of relevance to the Council (RD.12/21).

In May 2021 MHCLG published a Policy Paper which updated local authorities on progress regarding the government's response to the Redmond Review and its views on systems leadership for local audit. It proposed the replacement of the existing Financial Reporting Council (FRC) with a new body: the Audit, Reporting and Governance Authority (ARGA). Government had proposed the launch of a public consultation on the matter ahead of the parliamentary summer recess.

The report set out the open and forthcoming consultations; closed consultations; technical update in Financial Management Code; PSAA Draft prospectus in local auditor appointments from April 2023 – questions; Prudential Code Consultation Response; Treasury Management Code of Practice Consultation Response; Changes to Local Audit (Appointing Person) Regulations 2015 Consultation Response, and Financial Management Code Principles and Standards.

In considering the report Members raised the following questions and comments:

With reference to Appendix C – Treasury Management Code of Practice Response number 5, a Member asked whether it was likely that Environmental, Social and Governance risks (ESG) would gain increasing traction in Treasury Management procedures.

The Financial Services Manager (Deputy S.151) responded that he was aware that a number of responses on that issue had been in the same vein as the Council: that there were potential difficulties in merging environmental and social risks and maintaining levels of return. It may also be difficult to define an organisations environmental and social risk, for example the company BP was a major extractor of crude oil, but it also had invested significantly in renewable technologies.

In terms of the Council's approach it would consider the environmental and social responsibility statements of companies it invested with, the Financial Services Manager (Deputy S.151) cautioned that the Council did not have the capacity to influence those organisations.

Another Member commented that she felt it was important that the Council was mindful of the issue.

The Financial Services Manager advised that when the new Code of Practice was issued it would contain guidance which the Council would comply with.

RESOLVED – That the Audit Committee noted the update on technical issues and consultations including the Council's responses (RD.12/21).

[The meeting ended at 12:23pm]