

## **AUDIT COMMITTEE**

**FRIDAY 18 DECEMBER 2020 AT 10.00 AM**

**PRESENT:** Councillor Meller (Chair); Councillors Birks, Bomford, Mrs Bowman, Mrs McKerrell and Patrick.

**OFFICERS:** Corporate Director of Governance and Regulatory Services  
Corporate Director of Finance and Resources  
Principal Auditor

**ALSO**

**PRESENT:** Key Audit Partner (Grant Thornton)  
Audit Manager (Grant Thornton)  
Deputy Leader, and Finance, Governance and Resources Portfolio Holder

### **AUC.27/20 APOLOGIES FOR ABSENCE**

An apology for absence was submitted on behalf of Councillor Dr Tickner.

### **AUC.28/20 DECLARATIONS OF INTEREST**

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

### **AUC.29/20 PUBLIC AND PRESS**

**RESOLVED** – That the Agenda be agreed as circulated.

### **AUC.30/20 MINUTES OF PREVIOUS MEETINGS**

The Chair moved the Minutes of the Audit Committee meeting held on 24 September 2020; which had been received and adopted by Council on 3 November 2020.

**RESOLVED** – (1) That it be noted that Council had, on 3 November 2020, received and adopted the minutes of the Audit Committee meeting held on 24 September 2020.

### **AUC.31/20 MINUTES OF BUSINESS AND TRANSFORMATION SCRUTINY PANEL**

The Chair moved and Councillor Birks seconded that the Minutes of the meetings of the Business and Transformation Scrutiny Panel held on 3 and 17 September; 15 October and 1 December 2020 be noted and received.

**RESOLVED** – That the Minutes of the meetings of the Business and Transformation Scrutiny Panel held on 3 and 17 September; 15 October and 1 December 2020 be noted and received.

### **AUC.32/20 EXTERNAL AUDIT FINDINGS FOR CARLISLE CITY COUNCIL**

The Key Audit Partner (Grant Thornton) submitted the initial draft Interim Audit Findings Report for Carlisle City Council.

The Key Audit Partner (Grant Thornton) informed Members that whilst the submitted report did not set out the final position the External Audit was substantially complete with the exception of some areas in relation to the valuation of Property Plant and Equipment and Investment assets held by the Council which required further clarification.

It had been identified that the valuations carried out by the Council's external valuer had not been in line with the RICS Guidance or the International Valuation Standards Code. Upon being made aware of the issues, the Council had entered into dialogue with its external valuer. The Council had accepted the Key Audit Partner's view and, in order to secure assurances around the valuations and the measurement bases used, had appointed a new external valuer to carry out inspections of those assets carried at Depreciated Replacement Cost, as well as a sample of other assets from across the portfolio.

Once the work was completed on the revaluations, any adjustments to asset carrying values would need to be determined and that may require previous years' valuations to be amended as well.

The rest of the audit process was largely complete with any required amendments being agreed with the auditors and reflected in the final statements which would be brought to the Committee for approval once the asset valuations and Audit Findings Report were finalised.

The Key Audit Partner (Grant Thornton), commended the Council on its response to the issue once it had been identified and it was noted that the Corporate Director of Finance and Resources had provided effective leadership on the matter.

A summary of the Value for Money work was provided, and the Key Audit Partner (Grant Thornton), advised that he planned to give an unqualified Value for Money conclusion.

In light of the additional work in relation to the valuation of Property Plant and Equipment and Investment assets held by the Council, the fee for External Audit Services would be reviewed and presented in the final report once the External Audit was completed.

The Audit Manager (Grant Thornton) have an overview of the Significant Audit Risks as detailed in the report. It was noted that the work regarding the Significant findings – key estimates and judgements in relation to NNDR appeals remained outstanding and it was hoped that it would be finalised early in 2021.

The Chair noted that the Corporate Director of Finance and Resources considered the gearing impact prior to any future borrowing being undertaken in light of any potential changes to the Council's asset portfolio. Given the Covid 19 Pandemic restrictions the continued work to realise the stage that the Council had was commendable, especially in light of assurances from the Local Government Association, HMRC and DWP that all correct procedures were in place.

Members raised the following observations during their consideration of the report:

- A Member thanked the Key Audit Partner (Grant Thornton) for his detailed work. She invited the Corporate Director of Finance and Resources to comment on the revaluation work being undertaken.

The Corporate Director of Finance and Resources commented that the National Audit Office had advised auditors to consider in greater detail the rationale and basis of valuations and indices submitted, which the audit team had actioned. The Council was due to appoint a new valuer as the contract with the previous provider had ended. The tender process for the new contract would include the RICS Guidance in the specification to ensure all statutory guidance and audit requirements were built in. Going forward, the Property Services team would engage in greater challenge of received valuations.

A new valuer had been appointed on an interim basis to carry out the revaluation work identified as necessary and a report had recently been submitted to the Council. However, that was still

in the process of being reviewed, once the Council had made its assessment, the data would be submitted to the External Auditor for their consideration. A meeting had been scheduled in early January 2021 for the Council and Grant Thornton to consider the revaluation work, in the event of that being deemed satisfactory, it was anticipated a Special meeting of the Committee may be held later that month where the final external audit report and amended accounts would be submitted.

A Member proposed: that the External Audit Findings for Carlisle City Council report be noted; an increase in external audit fees be acknowledged and that the Action Plan be forwarded to the Business and Transformation Scrutiny Panel for it to be taken into account as part of its work.

RESOLVED – 1) That the External Audit Findings for Carlisle City Council report be noted.

2) An increase in external audit fees be acknowledged.

3) That the Action Plan be forwarded to the Business and Transformation Scrutiny Panel for it to be taken into account as part of its work.

#### **AUC.33/20      STATEMENT OF ACCOUNTS 2019/20 AND 2020/21**

The Corporate Director of Finance and Resources reported (RD.46/20) that at the time of writing the audit of the 2019/20 Statement of Accounts had not yet been completed, the timeline for that work was set out.

The Corporate Director also summarised for Members the changes arising from the 2020 Code of Practice on Local Authority Accounting; and the Accounting Policies, details of which were provided at Sections 3 and 4 of the report.

A Member thanked the Corporate Director of Finance and Resources for her and her team's work, particularly in light of the challenges arising from the Covid 19 restrictions.

RESOLVED – That the Audit Committee noted the current position on the 2019/20 accounts and had considered the draft Accounting Policies to be used in the preparation of the 2020/21 accounts.

#### **AUC.34/20      INTERNAL AUDIT PROGRESS 2020/21 (OCTOBER TO DECEMBER)**

The Principal Auditor submitted report RD.45/20 providing an overview of the work carried out by Internal Audit between October and December of 2020/21.

Progress against the 2020/21 audit plan was as detailed at Appendix 1. 38% of planned reviews had been finalised to draft stage; with a further 3 reviews anticipated to be complete in draft by the end of Quarter 3 (48%).

The Principal Auditor advised that five planned pieces of work had been completed in the period, namely Audit of Local Air Quality Management; Audit of City Centre (including Events and Inspections); Audit of Carlisle Partnership – Value for Money; Audit of Income Management; and the Annual Fraud Review 2019/20.

He further summarised for Members the information provided at paragraphs 2.3 – 2.5; and Sections 3 and 4 concerning utilisation of the Audit resource during the period; performance indicators; and audit recommendations.

As identified above Internal Audit were currently behind target to achieve the audit plan. A recruitment exercise was underway to fill the vacant post. Internal Audit was also carrying out further work to identify and employ additional temporary resource to assist with the completion of the 2020/21 Internal Audit Plan.

A review of the Internal Audit plan had also been undertaken, including relevant discussion with responsible managers and the amendments identified at paragraph 5.2 were proposed to the Internal Audit plan.

Members raised the following observations during their consideration of the report:

- A Member commended the Principal Auditor on the work undertaken in relation to the Audit Plan. With respect to the proposal to remove 3 reviews, she asked when those areas would receive review in the future.

The Principal Auditor responded that risk informed decision making would be used to identify when further reviews of those areas proposed to be removed would be carried out.

The Corporate Director of Finance and Resources advised the Committee that, the Council had recently undergone an external review of risk management comprising all Risk Registers which was to be considered at the next meeting of the Corporate Management Risk Sub Group. She undertook to share the review with the Committee. In relation to the Effectiveness Review, work was being done to develop training resources for members of the Committee.

The Member requested that the CIPFA Code of Best Practice be adopted.

RESOLVED – That the Audit Committee:

- 1) Noted the progress against the Audit Plan for 2020/21 set out within Report RD.45/20.
- 2) Noted the progress made on audit recommendations to date outlined in Appendix B.
- 3) Approved the suggested amendments to the 2020/21 audit plan in Section 5.
- 4) Approved the adoption of the CIPFA Code of Best Practice.
- 5) That the Corporate Director of Finance and Resources circulate the Effectiveness Review to Members.

#### **AUC.35/20      INTERNAL AUDIT REPORT LOCAL AIR QUALITY MANGEMENT**

The Principal Auditor submitted report RD.47/20 which supplemented the Internal Audit Progress Report and considered the Review of Local Air Quality Management which was found to provide reasonable assurances and contained three medium graded recommendations. The Principal Auditor elaborated upon the audit highlighting, in particular detail, the key points and associated recommendations.

RESOLVED – That the Audit Committee received the final Audit Report outlined in paragraph 1.1 of Report RD.47/20.

## **AUC.36/20      INTERNAL AUDIT REPORT CITY CENTRE**

The Principal Auditor submitted report RD.48/20 which supplemented the Internal Audit Progress Report and considered the Review of City Centre which was found to provide reasonable assurances and contained eleven medium graded recommendations.

The Principal Auditor elaborated upon the audit highlighting, in particular detail, the key points and associated recommendations.

RESOLVED – That the Audit Committee received the final Audit Report outlined in paragraph 1.1 of Report RD.48/20.

## **AUC.37/20      INTERNAL AUDIT REPORT CARLISLE PARTNERSHIP**

The Principal Auditor submitted report RD.49/20 which supplemented the Internal Audit Progress Report and considered the Review of Carlisle Partnership – Value for Money which was found to provide reasonable assurances and contained one high and four medium graded recommendations.

The Principal Auditor elaborated upon the audit highlighting, in particular detail, the key points and associated recommendations.

Members raised the following questions and observations:

- What level of resource did the Council provide to Carlisle Partnership?

The Principal Auditor advised that the authority employed the Carlisle Partnership Manager, there were also costs associated with some venue hires that were met by the Council.

In response to comments regarding the out of date nature of some information on the Carlisle Partnership website, the Principal Auditor noted that the matter had been picked up via an advisory comment in the report.

- A Member considered that the timescale for setting up a Task and Finish Group to develop a performance framework for the Partnership of June 2021 was too long.

The Principal Auditor explained that the internal audit of the Partnership had only recently been completed and its recommendations and Action Plan agreed, as such it was reasonable to allow time for those to be implemented. As recommendation 1 of the audit was high level recommendation, it would be reviewed on a quarterly basis. Moreover, the work of the Task and Finish Group would be predicated on the finalised strategy.

The Member proposed that the matter be forwarded to the Health and Wellbeing Scrutiny Panel for inclusion in its Work Programme.

- A Member was disappointed that a high level recommendation had arisen from the audit and that the Partnership did not have a complete strategy in place, she asked whether consideration had been given to issuing a partial assurance?

The Principal Auditor confirmed that a partial assurance had been considered. However, there was evidence that the work of the Partnership did add value for money which counterbalanced the lack of a formal strategy. On that basis, a partial assurance was not felt to be reasonable.

The Member commented that the implementation of the report recommendations would improve the Partnership.

RESOLVED – 1) That the Audit Committee received the final Audit Report outlined in paragraph 1.1 of Report RD.49.20.

2) That the Internal Audit report for Carlisle Partnership be forwarded to the Health and Wellbeing Scrutiny Panel for inclusion in its Work Programme.

**AUC.38/20      DRAFT TREASURY MANAGEMENT STRATEGY STATEMENT,  
INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION  
STRATEGY 2021/22**

The Corporate Director of Finance and Resources submitted report RD.44/20 setting out the Council's draft Treasury Management Strategy Statement for 2021/22 in accordance with the CIPFA Code of Practice on Treasury Management. The Investment Strategy and the Minimum Revenue Provision Strategy for 2022/21 were incorporated as part of the Statement, as were the Prudential Indicators as required within the Prudential Code for Capital Finance in Local Authorities.

The report was scheduled for consideration by the Executive on 13 January 2021, prior to submission to full Council on 2 February 2021.

RESOLVED – That, subject to the observations detailed above, the Treasury Management Strategy Statement, Investment Strategy and Minimum Revenue Provision Strategy 2021/22 be noted.

**AUC.39/20      TREASURY MANAGEMENT QUARTER 2 2020/21 AND FORECASTS FOR  
2021/22 TO 2025/26**

The Corporate Director of Finance and Resources presented report RD.34/20 (amended) providing the regular quarterly summary of Treasury Management Transactions for the second quarter of 2020/21 and budgetary projections for 2021/22 to 2025/26.

The Executive had, on 9 November 2020, received Report RD.41/20 and the projections for 2021/22 to 2025/26 incorporated into the Budget reports considered elsewhere on the Executive Agenda (Minute EX.129/20 referred).

Since the report was considered by the Executive the government had announced the outcome of a consultation into use of the PWLB borrowing facility. As part of the Spending Review announcement on 25 November 2020, the government outlined the new guidelines under which borrowing from the PWLB could be undertaken by local authorities.

As expected, those new guidelines restricted the use of borrowing for commercial investment property ventures where yield was the primary reason for purchase.

The outcome of that new approach was that the additional 100bps that was added to rates 12-months ago had now been rescinded and borrowing rates had immediately fallen back to now be at levels similar to when the Council undertook some borrowing in September 2019 when it borrowed (£9m at 1.8% for 40 years, and £5m at 1.33% for 20 years).

The impact of the reduction in rates would be factored into the draft budget proposals and provided a significant saving in the cost of the borrowing that was still included in the Medium-Term Financial Plan. (Appendix C showed the original MTFP projection as considered by

Executive in November 2020). A revised projection was now shown at Appendix D that showed the impact of the new rates.

The borrowing rates shown at Para 1.4.2 have been updated as detailed on page 220 of the document pack.

The Business and Transformation Scrutiny Panel had, on 1 December 2020, resolved that the Treasury Management Quarter 2 2020/21 and Forecasts for 2021/22 to 2025/26 be received (Minute BTSP.73/20(f) referred).

RESOLVED – That Report RD.34/20 (amended) be noted, including the update to borrowing rates as outlined.

#### **AUC.40/20 PUBLIC AND PRESS**

**RESOLVED** – That in accordance with Section 100A(4) of the Local Government Act 1972 the Public and Press were excluded from the meeting during consideration of the following items of business on the grounds that they involved the likely disclosure of exempt information as defined in the paragraph numbers (as indicated in brackets against the minutes) of Part 1 of Schedule 12A of the 1972 Local Government Act.

#### **AUC.41/20 INTERNAL AUDIT REPORT INCOME MANAGEMENT** (Public and Press excluded by virtue of paragraph 3)

The Principal Auditor submitted private report RD.50/20 (Part B) which supplemented the Internal Audit Progress Report considered in Part A and considered the Review of Income Management.

The Principal Auditor outlined, in some detail, the content of the audit report including the key points and recommendations.

In response to a request from a Member that the Corporate Director of Finance and Resources comment on how the high level recommendation set out in the report be addressed, she set out the process that would be employed.

The Member proposed that progress against the high level recommendation, detailed in the report be reviewed on a quarterly basis. The Committee indicated its assent.

RESOLVED – 1) That the Audit Committee received the final Audit of Income Management.

2) That progress against the high level recommendation, detailed in the report be reviewed on a quarterly basis.

#### **AUC.42/20 ANNUAL REVIEW OF COUNTER-FRAUD ARRANGEMENTS** (Public and Press excluded by virtue of paragraph 3)

The Principal Auditor submitted private report RD.39/20 on the annual review of counter-fraud arrangements. Background information on the definition of fraud; its significant impact upon resources; and the role of Internal Audit was set out at Section 1.

The Principal Auditor summarised, in some detail, the arrangements in place and made suggestions for developments.

A Member suggested that information be made available, on the Council's website regarding the Council Tax Single Person Discount to assist residents in understanding when they should report changes in their household circumstances to the authority.

The Principal Auditor undertook to liaise with the Revenues and Benefits Services Manager on the matter.

The Corporate Director of Finance and Resources advised the Committee on the current process for reviewing the Single Person Discount, noting that consideration was being given to a county-wide review of the matter. She undertook to update the Committee on the progress of that review in due course.

A Member requested that a Committee receive a further report regarding data matches in relation to Housing Waiting Lists. The Committee indicated its assent.

Following a suggestion from a Member that Counter Fraud arrangements training be made available to Members, the Corporate Director of Finance and Resources agreed to extend the training, which had been provided to Officers, to Members. It was noted that the Officer training had been well attended and received.

RESOLVED – 1) That the Audit Committee noted the content of Report RD.39/20 and endorsed the improvements set out at Appendix A thereto.

2) That the Principal Auditor liaise with the Revenues and Benefits Services Manager regarding the provision of information on the Council's website relating to Council Tax Single Person Discount.

3) That a report be submitted to a future meeting of the Committee regarding data matches in relation to Housing Waiting Lists.

4) That the Corporate Director of Finance and Resources arrange training for Members on Counter Fraud arrangements.

[The meeting ended at 11:29am]