

## MINUTES OF PREVIOUS MEETING

### AUDIT COMMITTEE

**FRIDAY 24 JANUARY 2014 AT 10.00 AM**

**PRESENT:** Councillor Ms Patrick (Chairman), Councillors Atkinson (P), Boaden (as substitute for Councillor Mrs Atkinson – from 10.15 am), Bowditch, Bowman (S) (as substitute for Councillor Mrs Mallinson), Earp and Nedved

**OFFICERS:** Chief Executive  
Director of Governance  
Director of Local Environment  
Financial Services & HR Manager  
Chief Accountant  
Audit Manager  
Policy and Communications Manager

**ALSO**

**PRESENT:** Ms Jackie Bellard (Director, Grant Thornton); and  
Mr Richard McGahon (Manager, Grant Thornton)  
Group Audit Manager (Cumbria Shared Internal Audit Service)

#### **AUC.01/14 WELCOME**

The Chairman welcomed all those present and, in particular, Ms N Riley (Group Audit Manager – Cumbria Shared Internal Audit Service).

#### **AUC.02/14 APOLOGIES FOR ABSENCE**

Apologies for absence were submitted on behalf of Councillors Mrs Atkinson and Mrs Mallinson.

#### **AUC.03/14 DECLARATIONS OF INTEREST**

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

#### **AUC.04/14 MINUTES**

The Minutes of the meeting of the Audit Committee held on 26 September 2013 were submitted.

The following responses were provided to a Member's questions:

- Minute AUC.51/13 – the Chairman advised that she had discussed the establishment of a Working Group (to consider how the Annual Governance Statement could be produced in future) with the Financial Services and HR Manager. Other work pressures had affected progress, however, the matter would be addressed via workshops or training during April 2014.
- Minute AUC.52/13 – the Director of Governance confirmed that he had immediately written to the Director of Local Environment to bring to her attention the Audit

Committee's concerns regarding the lack of corporate overview and ownership of contract monitoring within that Directorate. A copy of that e-mail had been provided to the Chairman and Councillor Mrs Mallinson.

The Chairman added that the Director of Local Environment would be in attendance when the matter was considered later in the meeting.

- Minute AUC.53/13 – the Audit Manager advised that a report on the position of all follow ups of previous audit recommendations monitored via Covalent was attached at Appendix B to Report RD.79/13 which would be considered later on the Agenda. The position had improved since the last quarter.
- Minute AUC.53/13 – referring to the Committee's concerns that Officers were not complying with the Council's Financial Procedure Rules, the Financial Services and HR Manager confirmed that a note had been prepared and would be submitted to the Senior Management Team for consideration.
- Minute AUC.55/13 – Resolution (3) - the Director of Governance confirmed that the Corporate Risk Register now included the relevant Overview and Scrutiny Panel alongside the Portfolio Holder and Lead Officer, as requested by the Committee.

RESOLVED – That the Minutes of the meeting of the Audit Committee held on 26 September 2013 be agreed as a correct record and signed by the Chairman.

#### **AUC.05/14 MINUTES OF RESOURCES OVERVIEW AND SCRUTINY PANEL**

The Minutes of the meetings of the Resources Overview and Scrutiny Panel held on 10 October and 28 November 2013; and 6 January 2014 were submitted for information.

Referring to Minute ROSP.71/13 – Resolution (2), a Member questioned whether the Corporate Environmental Working Group had been re-established.

In response, the Director of Governance clarified the Audit Committee's role. He added that Members should not feel restricted in their questioning.

Referring to Minute ROSP.75/13 – Resolution (3), the Chairman asked the Financial Services and HR Manager to ensure that the Director of Resources' written response to the Panel's questions regarding the Central Hotel, Victoria Viaduct be also circulated to Members of this Committee.

RESOLVED – (1) That the Minutes of the meetings of the Resources Overview and Scrutiny Panel held on 10 October and 28 November 2013; and 6 January 2014 be noted and received.

(2) That the Director of Resources' written response regarding the Central Hotel, Victoria Viaduct be also circulated to Members of the Audit Committee.

#### **AUC.06/14 GRANT THORNTON - ANNUAL AUDIT LETTER 2012/13**

The Director (Grant Thornton) presented, for information, the Annual Audit Letter for the City Council, the purpose of which was to summarise the key findings from the work carried out for the year ended 31 March 2013, namely auditing the 2012/13 Accounts and

Whole of Government Accounts submission; assessing the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources; and certification of grant claims and returns.

By way of a reminder, the Director stated that the Audit conclusions provided in relation to 2012/13 were:

- an unqualified opinion on the Accounts which gave a true and fair view of the Council's financial position as at 31 March 2013 and its income and expenditure for the year
- an unqualified conclusion in respect of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources
- an unqualified opinion on the Council's Whole of Government Accounts submission
- Grant Thornton had certified the National Non-Domestic Rates return without amendment. Work was ongoing on the Housing Benefit and Council Tax Benefit claim and they would need to issue a qualification letter. A certification report would come forward to the next meeting of the Audit Committee

The Director (Grant Thornton) then drew Members' attention to the key areas for Council attention as detailed on pages 4 and 5 of the report.

RESOLVED – That the Audit Committee noted and received the Annual Audit Letter for 2012/13

#### **AUC.07/14 GRANT THORNTON – AUDIT COMMITTEE UPDATE**

The Manager (Grant Thornton) presented a paper detailing progress in delivering Grant Thornton's responsibilities as the Council's external auditors. Also included was a summary of emerging national issues and developments of relevance to the authority; together with a number of challenge questions in respect of those emerging issues which the Committee may wish to consider.

The Manager explained the background position, informing Members' that a number of useful publications were detailed on page 4. He had forwarded copies thereof to the Lead Committee Clerk and Members could discuss how they wished to access the documentation.

The Manager outlined the content of the publication entitled "2016 tipping point – Challenging the current" commenting that it was saying that for 2012/13 Councils were found to be generally quite resilient. In terms of financial arrangements, the biggest challenge moving forward would arise during 2015/16 and 2016/17. The publication also highlighted areas where local authorities could consider to improve their financial resilience. That included taking a robust look at their ability to raise income, consider partnership working and alternative delivery models. He also highlighted the issue of local government reorganisation, whether driven by Government or Councils themselves.

Although he had not read the publications referred to, a Member considered Council Tax to be one key area whereby the Council may raise income. The Member indicated that he would welcome the external auditors' views/advice thereon and, particularly in terms of the Council's ability to maintain current service delivery (i.e. was an increase in Council Tax required)? He further raised the issue of future re-organisation of local government within Cumbria.

The Chairman stated that clearly there were a number of emerging issues which required to be determined by the authority, some of which would be dealt with through the Budget process.

The Member agreed, but reiterated his request for advice from the external auditors.

The Manager (Grant Thornton) explained that the Audit Committee Update Report was designed to highlight the challenges faced by the Council. He referred to page 7 of the report, commenting that the reference to raising income was more about looking at other income streams e.g. car parking, as opposed to Council Tax. The matter of setting the Council Tax was a political decision for the Council to determine.

The Chairman clarified that it was not the role of the Committee to discuss those emerging issues in detail at this point in time.

Another Member stated that Grant Thornton's report raised a number of very important and pertinent issues for consideration by the authority. A considerable amount of work would be required and he questioned the process for taking that on board.

The Financial Services and HR Manager suggested that, in the first instance, the Audit Committee Update Report could be submitted to the Senior Management Team and possibly the Executive.

The Chief Executive commented that the report was helpful in terms of raising a number of issues upon which the authority needed to reflect. There would need to be a political will before local government reorganisation would take place within Cumbria.

The Chief Executive emphasised that the Council's duty was to the people of Carlisle. Clearly the next few years would be challenging in terms of the level of savings required.

The Manager (Grant Thornton) then outlined progress as at 13 January 2014, together with the emerging issues and developments, details of which were provided within the report. One major change related to property plant and equipment revaluations and he would discuss that with the Financial Services and HR Manager, and the Chief Accountant.

In response to a Member's question concerning income from charging, the Financial Services and HR Manager advised that many of the issues identified for consideration were being addressed via the Corporate Charging Policy and Charging Reports considered as part of the annual budget process. It would also be possible to provide a response to a future meeting of this Committee.

The Audit Manager (Internal Audit) referred Members to the Audit Plan 2013/14 (page 110 of the Agenda Document Pack) commenting that Internal Audit intended to look at the matter.

In response to a question, the Director (Grant Thornton) advised that although the report was circulated to local authorities generally, the emerging issues were tailored so that the City Council only received those of relevance.

The Chief Executive suggested that the emerging issues which were of relevance to the Council could be tabulated and an explanation provided to demonstrate that the issues were being addressed.

A Member asked whether hard copies of the publications referred to above could be provided to him. Another Member suggested that the documentation could be placed in each of the Political Group Offices.

The Director of Governance explained that the authority was actively trying to promote on-line working. If, however, individual Members wished to receive hard copies of the documentation that could be arranged.

The Chairman thanked the Director and Manager for submission of what was a really useful update report. She added that Officers would look at uploading the audit publications onto the Council's Committee Management Information System (CMIS).

RESOLVED – (1) That the Audit Committee noted the content of the Update Report for the year ended 31 March 2014.

(2) That although the emerging issues and developments would be considered by Financial Services; the Audit Committee recommended that the Report also be submitted to the Senior Management Team and the Executive for consideration.

(3) That a report (updating Members on progress in addressing the emerging issues) be submitted to a future meeting of the Committee.

#### **AUC.08/14 FINAL ACCOUNTS PROCESS 2013/14**

The Chief Accountant submitted report RD.72/13 providing information on the 2013/14 Final Accounts process.

He reminded Members that the 2012/13 Annual Audit Findings Report, considered by the Committee on 26 September 2013, acknowledged the continuing significant improvements in the final accounts process compared to previous years. Nevertheless, the report did set out two recommendations in respect of the final accounts process. Details of those recommendations and how they had been addressed were provided at Section 2.1 of Report RD.72/13.

Turning to the changes arising from the 2013 Code of Practice on Local Authority Accounting, the Chief Accountant explained that the main change for the 2013/14 year end was the change required to the Collection Fund for the new Business Rate Retention Scheme. There were also changes to the way pension costs were accounted in line with changes to IAS19 (International Accounting Standard). He added that further guidance on the accounting treatment for those two issues would be provided in the CIPFA year end LAAP bulletin.

The Chief Accountant then reported that the existing Statement of Accounting Policies had been reviewed to reflect the changes in the 2013 Code of Practice and also to provide further explanation of other existing policies. Those were attached at Appendix A and were based upon the Code of Practice.

Members were asked to consider the Accounting Policies as outlined to provide the basis for the preparation of the 2013/14 Accounts.

It was proposed that a training session (for Members) be held in June / July 2014 in order to facilitate their understanding of the Accounts, the Accounting Policies and the main changes required as a result of the 2013 Code of Practice.

In response to a Member's question, the Chairman advised that she had requested a separate training session to address the Accounts in more detail.

The Financial Services and HR Manager added that the training could be made available to all Members.

RESOLVED – That the Audit Committee noted the content of Report RD.72/13, including the changes highlighted, and had considered the accounting policies to be used in the preparation of the 2013/14 Accounts.

#### **AUC.09/14      REVIEW OF FINANCIAL PROCEDURE RULES – RETENTION OF DOCUMENTS**

The Financial Services & HR Manager submitted report RD.73/13 providing Members with proposed changes to the authority's Financial Procedure Rules in respect of the retention of documents.

In order to comply with audit certification guidelines and to protect any grant funding received it may be necessary to retain documents longer than the timeframes set out in the Financial Procedure Rules. It was therefore considered prudent to include a caveat to that effect within the Constitution as proposed below.

Current wording:

*There is a legal requirement to retain certain records for periods between three years and permanently. A grid, which gives guidelines on how long documents should be held, is shown below.*

Proposed additional narrative:

*However, other contracts, partnerships, agreements and grant related certification requirements may stipulate longer timeframes and these should take precedence over such obligations. Relevant responsible officers should provide the necessary information on retention periods to Financial Services.*

Members were asked to note that following the Internal Audit Review of 'Records Management' which was considered elsewhere on the Agenda, a project group was being established whose remit was to develop a corporate Records Management Policy and to review the Council's retention schedule in more depth. The aim was to complete that piece of work by the end of March 2014.

In response to Members' questions the Financial Services and HR Manager commented that a great deal of historical information had been lost during the Carlisle Floods.

The Audit Manager added that a Project Group had been established whose remit it was to develop a corporate Records Management Policy and to review, in more depth, the Council's retention schedules.

RESOLVED – That the Audit Committee approved the proposed changes to the Council's Financial Procedure Rules in respect of the retention of documents, as outlined in Report RD.73/13 for recommendation to Council on 4 March 2014.

The meeting adjourned at 10.50 am and reconvened at 10.57 am

#### **AUC.10/14 CODE OF CORPORATE GOVERNANCE - ACTION PLAN**

Pursuant to Minute AUC.52/13, the Financial Services & HR Manager submitted report RD.74/13 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. Notwithstanding that, any areas of significant weakness identified in Internal Audit Reviews considered elsewhere on the agenda would form part of the next Action Plan.

The Chairman pointed out that the Committee had, at their last meeting, raised concerns regarding the lack of corporate overview and ownership of the contract monitoring within the Local Environment Directorate. Concerns had also been raised regarding the skills framework and training of staff to carry out the contract monitoring role. Members had 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. Internal Audit would provide a follow-up report to the July 2014 meeting of the Committee.

The Director of Local Environment informed Members that a fundamental review of the Waste Services had been undertaken, the new structure having to address a number of issues in addition to those highlighted by the Committee.

The Director of Local Environment gave a presentation on the Neighbourhood Services Review outlining, in some detail, the work undertaken and current position as regards:

- the Bring Site Contract
- the Recycling Contract
- the improvements which would emanate from the new structure
- the new Technical Team
- the service request function

The Director of Local Environment explained how contract monitoring was embedded within all the roles in the new Technical Team and it was explicitly cited in the job purpose of the Technical Manager and Technical Officer roles. As significant volumes of customer requests were made to the team about both in house and out sourced services, that was the most effective way of ensuring that contract performance met required standards. Improved management of information was also essential in performance monitoring of both the in house services and the contracted out services and the new back office database would address that.

The Director of Local Environment then responded to Members' questions / comments:

*Relationship with the contractor* – any issues would be addressed at the correct level within the new Technical Team. A programme of regular meetings between the Technical Manager, the Contracts Manager at FCC and the Neighbourhood Services Manager had now been established;

*In house and external waste collection* – whilst a mix of service delivery generally worked well, the collection of dry recycling being split between in house and out sourced service was not an efficient way in which to deliver the service. A range of service delivery options would be submitted to the Executive at the correct time;

*Many good ideas came from people on the ground* – more generic roles of Technical Officer and Technical Clerks had been introduced so that information and job roles were shared, thus promoting better team working, communication and flow of work; and

Information flowed between CRM and back office systems.

A Member considered that a full in-house service would be advantageous in terms of raising additional income for the Council.

The Chairman clarified that the Committee was not looking at the wider service delivery issues today.

A Member stated that he had faith in the procedures which were now in place, having been reassured by the Director's presentation to the Environment and Economy Overview and Scrutiny Panel on 16 January 2014.

The Director of Local Environment added that she was happy to discuss the matter in greater depth with any Member out with this meeting.

The Chief Executive emphasised the need for a corporate Contracts Management role (with overall responsibility / contracts management skills) which would report to the Deputy Chief Executive.

A Member expressed some concern that the type of corporate approach to contracts management alluded to above may not materialise. He was not at this point in time reassured by what had been said.

In response, the Chief Executive explained that there were three areas (the contracts alluded to by the Director of Local Environment; and the two significant contracts i.e. Tullie House and Carlisle Leisure Ltd). In reality, and given the available resources, it made

sense to have a Contracts and Community Services Manager within the Deputy Chief Executive's Team and posts located more locally within the new Technical Team.

The Chief Executive considered that those arrangements would be satisfactory but would require regular monitoring.

The Director of Local Environment added that the contracts were different in terms of how they were delivered in that the waste contract customer contact was via the Council whereas CLL and Tullie House were managed by the contractor so it was appropriate that different contract monitoring arrangements were in place. Who managed customer demand could be considered in the waste contract in the future, so long as it was easy for the customer.

The Director of Local Environment added that the contracts were different in terms of how they were delivered and an alternative approach may be taken in future.

The Chairman respected the views expressed by Officers, adding that the issues would be the subject of future audit reviews.

A Member recognised the need for flexibility and endorsed the approach outlined by the Chief Executive and the Director of Local Environment.

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

### **AUC.11/14 INTERNAL AUDIT PROGRESS REPORT 2013-14 (NO. 3)**

The Audit Manager submitted report RD.79/13 summarising the work carried out by Internal Audit and detailing progress made on delivery of the approved 2013/14 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 December 2013 was illustrated at Appendix A for Members' assistance.

The Plan called for 540 direct audit days to be delivered in 2013/14. 335 days (62%) had been delivered up to the end of the third 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.

In terms of amendment to the 2013/14 Audit Plan, the Audit Manager explained that 20 days had been allocated within the Plan to Project Support. Since that time had not been utilised to date it was proposed that it should be redirected to support the additional requirements which had been necessary to implement and monitor the revised arrangements for reporting of previous audit recommendations.

Although 40 days were allocated in the Plan to undertake two Value for Money Reviews insufficient time remained to deliver both reviews due to necessary additional time being spent on certain high risk reviews (predominantly Procurement and Revenues Recovery). The Value for Money allocation would therefore be reduced to one review of 20 days to accommodate that additional time spent.

The above proposed amendments to the Plan had been discussed and agreed with the Director of Resources, and Members were asked to note the changes to the Audit Plan.

A report on the position of all follow ups of previous audit recommendations monitored via Covalent was attached as Appendix B. Attention was drawn to the colour coding used to highlight the progressive action taken against each audit recommendation.

In summary, a total of 69 recommendations had been monitored during the reporting period; 58 where sufficient action was reported and those recommendations were now closed. Of the remaining 11 'open' recommendations; 6 were in progress and 5 were where insufficient information had been provided to determine whether or not appropriate action had been taken to date. For those recommendations which had not had an adequate response, further enquiries with Managers had been made.

Members were asked to note the position on the follow up of previous audit recommendations.

A Member noted that the Summary of Audit Recommendations covered a lengthy period (from April 2012 to date). He questioned when the closed actions (green) would be removed from the report. If, however, an amber / red action had moved to green that should still be reported to the Committee prior to being removed.

In response, the Audit Manager suggested that in future only those actions marked amber or red should be brought before the Committee. Other mechanisms (e.g. follow ups on audit reviews) would ensure that nothing was missed.

Members questioned whether response deadline dates were put in place for overdue actions (red), and whether that was an ongoing trend specific to particular audit reports.

The Audit Manager replied that the issue was around encouraging Managers to keep Covalent up-to-date, and that prompts were sent out when required. Covalent could not pick up upon trends.

The Chairman commented upon the need to reinforce outstanding audit recommendations. If responses were not provided the Committee may ask Officers to attend to explain the reason why.

The Chief Executive said that the audit recommendations could be considered by the Senior Management Team in order to encourage staff to respond in a timely fashion. If the Committee required staff to be held to account, then he insisted that Senior Officers only should attend.

The Director of Governance stressed that the Committee should be made aware of the good positive work undertaken by staff, in addition to any areas of concern.

The Audit Manager then outlined in some detail the content and ratings attached to the audit reports in respect of External Funding; Electoral Registration; Performance Service Standards; Revenues Recovery; and Records Management. Copies were appended to the report.

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

- Audit of Electoral Registration

It was pleasing to note the areas of good practice (detailed at section 6.2 of the Review) and the excellent work undertaken by the Electoral Services Team.

- Audit of Performance Service Standards

The Chairman questioned how many of the recommendations had been actioned by the agreed date.

The Audit Manager replied that, because the Review had been awarded a reasonable assurance level the information would be entered into the Covalent Performance Management System, and progress reported to the next meeting of the Audit Committee.

- Audit of Revenues Recovery

Referring to Recommendation 5 - the use of Bailiffs, the Chairman noted that local authorities had differing strategies in terms of vulnerable people. She assumed that would be addressed.

The Audit Manager referred to the use of SLAs and the alignment of procedure in that area.

- Audit of Records Management

The Chairman reminded Members that the Audit of Records Management was originally reported in September 2012 and had been awarded a restricted assurance level, with three high level recommendations having been identified. The assurance level remained at partial. She suggested that questioning should be around the reasons / rationale for that delay.

The Policy and Communications Manager was in attendance. He provided the following update in respect of each of the recommendations contained within the Action Plan:

R1 – a draft Records Management Policy was now out for consultation with staff with a response date of 28 February 2014. The consultation exercise would provide an opportunity to discuss the matter in detail with Managers, thus capturing any key issues raised. Members would also be consulted.

R2 – the aim was to ensure a defined and systematic approach to the implementation of a proper records management system within the Council. The Records Management Project had been accepted by the Corporate Programme Board. Work had commenced on the project, and he and the Corporate Information Officer were the key Officers who would drive the matter forward.

R3 – would be concluded in February 2014, with overall guidance to support the framework being built in during March 2014.

Members could be assured that the lack of a Records Management Policy did not mean that there was no records management. Some excellent examples of records management had been found within the authority.

R5 – discussions were taking place in terms of how detailed the ‘disposal log’ needed to be.

R6 – all of the critical roles were dealt with within the Policy. The delay had occurred due to the need to look at the structure. The necessary research was now in place to move the matter forward.

The Chief Executive acknowledged that there was a lesson to be learnt by the Senior Management Team (SMT) in terms of a greater awareness of audit recommendations and supporting Managers in implementing those in a timely manner. The ‘traffic lighting’ of recommendations would assist SMT in properly executing their responsibilities. He apologised that that had not happened on that occasion.

A Member thanked the Chief Executive for what was a logical approach and looked forward to the outcome thereof in due course.

In response to a question, the Policy and Communications Manager advised that the one day Records Management training course had been provided by an expert in the field.

The Chairman was mindful of the constant advances in technology and questioned whether the Council would have the ability to retain electronic records moving forward (i.e. could such records be transferred onto different formats?)

The Policy and Communications Manager replied that archiving would be included within the Records Management Policy and he was therefore confident that the Chairman’s concern could be addressed.

The Chairman also sought an assurance that training would be disseminated to staff as appropriate.

In conclusion, the Audit Manager reported upon the recommendations.

RESOLVED – (1) That report RD.79/13 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 amendments to the 2013/14 Audit Plan, as detailed in Section 3, be noted.

(3) That the position on the follow up of previous audit recommendations, as outlined in Section 4, be noted; the Audit Committee recommended that the process for updating Covalent with details of the progressive action taken in relation to each audit recommendation be strengthened so that Internal Audit was aware prior to reporting to this Committee, otherwise Officers may be required to attend the Committee.

(4) That the Audit Committee received the completed audit reports referred to in Section 5 of the report, subject to a full update on progress with the Records Management Review being submitted to the next meeting.

(5) That the Audit Committee agreed the amendment to future reporting of the Summary of Audit Recommendations – Monitoring Report as outlined above.

#### **AUC.12/14 TREASURY MANAGEMENT STRATEGY STATEMENT, INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION STRATEGY 2014/15**

The Chief Accountant submitted report RD.63/13 setting out the Council's Treasury Management Strategy Statement for 2014/15 in accordance with the CIPFA Code of Practice on Treasury Management.

He informed Members that the Investment Strategy and the Minimum Revenue Provision Strategy for 2014/15 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 asked to note and comment upon the proposed Treasury Management Strategy for 2014/15.

RESOLVED – That the Treasury Management Strategy Statement, Investment Strategy and Minimum Revenue Provision Strategy 2014/15 be noted.

#### **AUC.13/14 TREASURY MANAGEMENT – JULY TO SEPTEMBER 2013 AND FORECASTS FOR 2014/14 TO 2018/19**

The Chief Accountant submitted report RD.55/13 providing the regular quarterly report on Treasury Transactions, together with an interim report on Treasury Management as required under the Financial Procedure Rules. The report also discussed the City Council's Treasury Management estimates for 2014/15 with projections to 2018/19, and set out information regarding the requirements of the Prudential Code on local authority capital finance.

The Chief Accountant emphasised, in particular, the fact that interest receivable was falling behind budgeted projections due to average investment returns being lower than those anticipated when the budget was set. He also advised Members that Sector (the Council's Treasury Advisors) had changed their name to Capita Asset Services.

In response to a query raised by the Manager (Grant Thornton), the Chief Accountant confirmed that the Council Tax figures had not been collated correctly. He clarified the position for Members, commenting that collection levels had remained fairly stable in each of the past three years.

The Chief Accountant then responded to Members' questions regarding interest projections and the portfolio composition by Sector's suggested lending criteria.

RESOLVED - That Report RD.55/13 be received.

#### **AUC.14/14 INTERNAL AUDIT EFFECTIVENESS REVIEW**

The Group Audit Manager (Cumbria Shared Internal Audit Service) reported (RD.81/13) that Cumbria County Council had commissioned a review of the Internal Audit Shared Service in spring 2013. That was to assist the incoming Group Audit Manager in developing the audit service in line with the Public Sector Internal Audit Standards

(PSIAS). Those standards became mandatory for all UK public sector internal audit services from 1 April 2013.

Grant Thornton undertook the review as a piece of consultancy work separate from the external Audit Team which carried out the final accounts work at the County and District Councils. That approach was designed to provide an independent assessment of the Internal Audit Service and invite recommendations for further developments to ensure conformance with the PSIAS.

Members' attention was drawn to the report at Appendix A which summarised the approach taken and the findings arising from the review, along with an agreed Action Plan for implementation.

The Group Audit Manager advised that the review had highlighted a number of strengths and good practice arrangements in place by the Internal Audit Shared Service along with 17 recommendations which were geared to aid further service improvements. Audit management welcomed the findings of the review and had already established a series of internal working groups which would support the effective implementation of the agreed recommendations. Progress made by those working groups would be reported to the Shared Service Operational Board.

The Group Audit Manager and the Audit Manager then outlined, in some detail, each of the recommendations contained within the Action Plan.

Referring to Recommendation 2, the Chairman reported that the Committee was not made aware of the reasons why certain risks were not included within the Audit Plans.

In response the Audit Manager advised that it was not possible to look at all of the areas, however, key risks were addressed through the planning process.

Referring to Recommendation 7, a Member asked when the Internal Audit Manual would be available.

The Group Audit Manager replied that there was no definite end date. Work was in progress, some of which would be long term. Sections would be replaced as processes developed; therefore the matter would be ongoing over the coming twelve/eighteen month period.

A Member sought clarification of the statement "87% of staff felt that being part of a Shared Service has only partly or not changed IA delivery in a beneficial way".

The Group Audit Manager explained that a survey had been undertaken by the external auditors. Part of the reason for the response related to staff experiencing little change in their day to day work since the establishment of the Shared Service.

The Audit Manager added that over the last year that situation had improved and staff had been afforded the opportunity to work on audits elsewhere in the Shared Service, even though they were based in the Civic Centre.

The Chairman asked when the Committee might expect a progress report against the actions contained within the Action Plan.

The Group Audit Manager advised that a progress report could be submitted within six months.

RESOLVED – That the report findings and resulting Action Plan, attached at Appendix A to Report RD.81/13, be noted.

#### **AUC.15/14 INTERNAL AUDIT CHARTER**

The Group Audit Manager (Cumbria County Council) submitted report RD.80/13 presenting a draft Internal Audit Charter (Appendix A) setting out the arrangements for the delivery of the Internal Audit service to Carlisle City Council.

It was a requirement of the mandatory Public Sector Internal Audit Standards that the Council had a Audit Charter in place, which had been approved by senior management and the Audit Committee.

Members' attention was drawn to the key elements of the Charter, together with the responsibilities of management, as outlined at Section 1.2 of the report.

The Group Audit Manager added that Internal Audit helped the Council to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The diagram attached at Appendix B illustrated the three lines of defence in ensuring that organisations were adequately managing their risks. Internal Audit formed the third line of defence alongside other independent external providers of assurance. Importantly, the role of Internal Audit was to provide the senior management and elected Members of the organisation with assurance that the arrangements within the first and second lines of defence were adequate and working effectively to manage risks.

The Chairman noted that Section 3.8 (Authority) made no mention of confidentiality. She believed that to be a key requirement for inclusion within the Charter.

The Group Audit Manger replied that the new Standards contained a new mandatory Code of Ethics which could be mirrored within the Internal Audit Charter.

Referring to page 245 (Reporting), the Chairman noted that draft audit reports would be produced on a "timely basis" following all audit reviews. She recalled that the audit of Customer Services had been ongoing for years and expressed a wish to see more defined timescale(s) included within the Internal Audit Charter.

In response, the Group Audit Manager said that the matter would form part of other service and performance measures.

The Audit Manager also emphasised the need to ensure that the Action Plans attached to final audit reports remained current and were not out of date.

In response to questions regarding the procedure for approval of the Internal Audit Charter, the Director of Governance suggested that the Audit Committee recommend the Charter to the Executive for final approval.

RESOLVED – (1) That the Audit Committee had considered the draft Internal Audit Charter and noted that the document would be updated annually and submitted for approval to senior management and the Audit Committee alongside the annual Audit Plan.

(2) That the Audit Committee considered that confidentiality was a key requirement for inclusion within the Charter.

(3) That, subject to the above, the draft Internal Audit Charter be referred to the Executive for approval.

[The meeting ended at 12.55 pm]