

## MINUTES OF PREVIOUS MEETING

### AUDIT COMMITTEE

**WEDNESDAY 18 DECEMBER 2019 AT 10.00 AM**

**PRESENT:** Councillor Bomford (Chair), Councillors Mrs Bradley (as substitute for Councillor Patrick), Mrs McKerrell, Meller (as substitute for Councillor Mrs Finlayson), Robinson and Shepherd (as substitute for Councillor Mrs Bowman), Dr Tickner

**OFFICERS:** Town Clerk and Chief Executive  
Corporate Director of Governance and Regulatory Services  
Corporate Director of Finance and Resources  
Principal Accountant  
Principal Auditor  
Officer Manager and PA to the Chief Executive

**ALSO**

**PRESENT:** Engagement Manager (Grant Thornton)  
In Charge Auditor (Grant Thornton)  
Deputy Leader, and Finance, Governance and Resources Portfolio Holder  
Environment and Transport Portfolio Holder

#### **AUC.50/19 WELCOME**

The Chair welcomed all those present to the meeting.

The Engagement Manager (Grant Thornton) introduced the In Charge Auditor to the Committee.

The In Charge Auditor stated that he had recently joined Grant Thornton; outlined his previous experience, adding that he looked forward to working with Members moving forward.

The Chair welcomed the gentleman to his first meeting of the Committee.

#### **AUC.51/19 APOLOGIES FOR ABSENCE**

Apologies for absence were submitted on behalf of Councillors Mrs Bowman, Mrs Finlayson and Patrick.

#### **AUC.52/19 DECLARATIONS OF INTEREST**

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

#### **AUC.53/19 PUBLIC AND PRESS**

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

## **AUC.54/19      MINUTES OF PREVIOUS MEETING**

There were submitted the Minutes of the Audit Committee meeting held on 26 September 2019; which had been received and adopted by Council on 5 November 2019.

Councillor Dr Tickner referred to Minute AUC.42/19, and specifically the paragraph “The Deputy Leader further emphasised that, at no point in any discussions on the £15m stock issue had the Executive considered the former Treasurer’s decision to be reckless.”

Councillor Dr Tickner felt that there was an inference that he had made the statement, which he had not.

Councillor Dr Tickner then moved, Councillor Robinson seconded, and it was agreed that the paragraph be removed from the Minute.

Referencing Minute AUC.43/19, Councillor Dr Tickner questioned whether the City Council had made application for funding from the £20 million committed for councils across England to prepare for delivering Brexit and whether any progress had been made in that regard.

The Corporate Director of Finance and Resources replied that no application had been made, but the Council had received funding in the sum of £35,000 as had all district councils. The Corporate Director of Economic Development was the Brexit lead.

RESOLVED – (1) That it be noted that Council had, on 5 November 2019, received and adopted the minutes of the Audit Committee meeting held on 26 September 2019. The minutes were signed by the Chair.

(2) That Minute AUC.42/19 be amended by the deletion of the paragraph specified above.

## **AUC.55/19      MINUTES OF BUSINESS AND TRANSFORMATION SCRUTINY PANEL**

The Minutes of the meetings of the Business and Transformation Scrutiny Panel held on 3 October and 3 December 2019 were submitted for information.

RESOLVED – That the Minutes of the meetings of the Business and Transformation Scrutiny Panel held on 3 October and 3 December 2019 be noted and received.

## **AUC.56/19      EXTERNAL AUDIT PROGRESS REPORT AND SECTOR UPDATE**

The Engagement Manager (Grant Thornton) introduced a paper detailing progress in delivering Grant Thornton’s responsibilities as the City Council’s external auditors.

The Engagement Manager summarised the progress at December 2019 in terms of the 2018/19 Financial Statements Audit; and planning for the 2019/20 Audit. Members’ attention was further drawn to:

- Page 27 – Audit Fees – across all sectors and firms, the Financial Reporting Council (FRC) had set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Grant Thornton’s work in the Local Government sector in 2018/19 had highlighted areas where financial reporting, in particular, property, plant and equipment, and pensions needed to improve. There was also an increase in the complexity of Local Government

financial transactions and financial reporting. That combined with the FRC requirement that all Local Government audits were at or above the 'few improvements needed' (2A) rating meant that additional audit work was required.

Last year an additional audit fee in the sum of £4,500 was charged to take account of additional work, including in relation to the McCloud ruling. The additional fee for the coming year was likely to be in the region of £6,000 subject to the proviso that no further unplanned work was required.

- Page 28 - the 2019/20 Audit Deliverables - Grant Thornton would issue the Accounts Audit Plan to management in January 2020 and present the plan to the next Audit Committee in March 2020. He was, however, happy to share the plan with Members ahead of the March meeting if necessary.

Members raised the following questions:

- *During 2017, the PSAA had awarded contracts for audit for a five year period beginning on 1 April 2018. One year later, additional work was required resulting in an additional charge, which may equate to between £25,000 - £30,000 over a five year period. Why did Grant Thornton not anticipate such a scenario?*

In response, the Engagement Manager (Grant Thornton) reiterated that there had been a fundamental change in the work external audit required to do in order for them to sign the Audit Opinion.

- *How many additional hours of work had been undertaken and could the Committee receive a breakdown in respect thereof?*

The Engagement Manager (Grant Thornton) advised that he would require to investigate that point. Fees were subject to PSAA and management approval.

The Chair added that the Committee would receive an update on the audit in early course.

The Corporate Director of Finance and Resources anticipated that the issue would result in a variation to the contract and that Officers would ensure that they were appraised prior to reporting to the Committee.

- *A Member questioned whether it was a national or local issue, adding that he would welcome the views of Legal Services on the contract in due course.*

The Engagement Manager (Grant Thornton) said that the changes alluded to would apply to organisations across the nation. The audit contract would require PSAA approval.

The Corporate Director of Governance and Regulatory Services assured Grant Thornton and the Committee that discussions today were entirely appropriate; the matter needing to be open and transparent.

- *Had the McCloud ruling been addressed?*

The Corporate Director of Finance and Resources explained that although a provisional actuarial valuation of the Cumbria Local Government Pension Scheme had been undertaken further work was required. The work undertaken by the auditors was specific to the 2018/19 Accounts which were finalised. Additional work may be required moving forward.

The Engagement Manager added that, from an audit point of view, the timing of the McCloud judgement had required the taking of specific action. The matter had been factored in this year.

The In Charge Auditor (Grant Thornton) then presented the Sector Update which provided an up-to-date summary of emerging national issues and developments to support the Committee.

In particular, he provided a detailed overview of the following:

- Page 30 - The MHCLG Independent probe into local government audit, headed up by Sir Tony Redmond, a former CIPFA president. The review deadline had been extended to 20 December and all were welcome to respond;
- Page 31 - The Financial Reporting Council – Summary of key developments for 2019/20 annual reports; the main issue being the new standard IFRS 16 Leases which related to the way in which leases were disclosed and would directly affect the 2020/21 accounts;
- Page 32 - What may happen in terms of local government audit in the future; and
- Page 33 - Grant Thornton's Sustainable Growth Index Report.

In response to a question, the Corporate Director of Finance and Resources did not anticipate that IFRS 16 would significantly impact upon the City Council.

In terms of the future of local government audit, the Engagement Manager (Grant Thornton) emphasised that they had been very clear that the regulator should be a specialist in local authority audit.

RESOLVED – That the Audit Committee welcomed and received Grant Thornton's audit progress report and sector update for the year ending 31 March 2020.

#### **AUC.57/19 FINAL ACCOUNTS PROCESS 2019/20**

The Principal Accountant submitted report RD.44/19 providing information on the 2019/20 Final Accounts process.

The Principal Accountant reminded Members that the 2018/19 Annual Audit Findings Report, considered by the Committee on 30 July 2019, acknowledged the continuing significant improvements in the final accounts process compared to previous years. Four recommendations were made in the Audit Findings Report, the updated position in relation to which was as recorded at Section 2.1 of report RD.44/19.

Members were further advised that there were no significant changes to the 2019 Code of Practice on Local Authority Accounting.

The Principal Accountant added that the existing Accounting Policies had been reviewed to reflect the changes in the 2019 Code of Practice and also to provide further explanation of other existing policies. The updated policies were attached at Appendix A. Members were asked to consider the accounting policies as outlined to provide the basis for the preparation of the 2019/20 Accounts.

It was proposed that a training session (for Members) be held in June / July 2019 in order to facilitate their understanding of the Accounts; the accounting policies; and the main changes required as a result of the 2019 Code of Practice.

In response to a question, the Corporate Director of Finance and Resources confirmed that the original budget for 2020/21 identified required savings of £1.130 million for both 2019/20 and 2020/21; however, revised savings were now expected totalling £0 million in 2020/21; £1 million in 2021/22 increasing by £0.850 million to £1.850 million in 2023/24.

RESOLVED – That the Audit Committee noted the content of Report RD.44/19; and had considered the accounting policies to be used in the preparation of the 2019/20 Accounts.

#### **AUC.58/19      INTERNAL AUDIT PROGRESS OCTOBER TO DECEMBER – 2019/20**

The Principal Auditor submitted report RD.43/19 providing an overview of the work carried out by Internal Audit between October and December of 2019/20.

Details of progress against the 2019/20 Audit Plan were as shown at Appendix 1. Approximately 50% of planned reviews had been finalised and a further 25% were in progress.

The Principal Auditor advised that four planned pieces of work had been completed in the period, namely Audit of Project Management; Audit of Tourist Information Services; Audit of Bereavement Services; and Audit of Contaminated Land. A further audit had been drafted and would be reported to the Committee at their next meeting.

Members were reminded that, in order to provide an effective Internal Audit service, there needed to be an effective measure of the performance it achieved. The table set out at paragraph 3.1 showed progress against the indicators agreed for 2019/20.

Five of the reviews currently being undertaken were expected to be completed to draft by the end of December, which would bring performance back in line with target following the additional unplanned work reported in September. The unplanned work also impacted the provision of timely draft reports, as a number of assignments were put on hold while this work was prioritised.

A vacancy was expected in Internal Audit in January 2020, which could result in additional pressure on the plan, but action was being taken to recruit to that post.

The Principal Auditor further highlighted Appendix 2 which showed a summary position of outstanding audit recommendations and progress made against implementation thereof. Details of the implementation process were also provided.

It was noted that:

- 29 recommendations were found to have been fully implemented and were now closed.
- 7 recommendations had not been implemented and a revised timescale for completion had been proposed.
- One recommendation in relation to Information Governance would take time to fully embed. As the recommendation required significant input from ICT Services that work could only start following the appointment of a Head of Service. Progress against the recommendation would be reported on a regular basis once the appointment had been made.

The approved internal audit plan for 2019/20 included a 14 day contingency for specialist ICT audit work, which was to be procured externally.

Both Internal Audit and Senior Management were aware of the current risk exposure within ICT Services, including the need to recruit a new Head of Service and address outstanding issues previously raised by Internal Audit.

A specialist review would not add further value to the internal audit opinion, while also causing significant disruption to the ICT team. It was therefore proposed that this contingency be carried forward to the 2020/21 internal audit plan.

The Principal Auditor further reported that in October 2019 he had circulated an electronic version of CIPFA's self-assessment questionnaire for measuring the effectiveness of the Audit Committee to ten Members of the Committee, including substitutes that had attended recent meetings.

To date four responses had been received. To carry out a more meaningful analysis it would be useful to receive further responses. Paper versions of the survey would be made available to assist. An internal workshop would be arranged in early 2020 to discuss findings.

The Chair was assured by the expectation set out at paragraph 3.2 that 5 of the reviews currently being undertaken would be completed to draft by the end of December, which would bring performance back in line with target following the additional unplanned work reported in September. Members were encouraged to pick up and return the self-assessment questionnaire as soon as possible.

He requested that the font size at Appendix 2 (Progress against previous Audit Recommendations) be increased for ease of reading in future audit reports.

The Chair further welcomed the highlight provided at Section 5 regarding amendments to the Internal Audit Plan.

On the issue of the amendments to the Internal Audit Plan alluded to above, the Town Clerk and Chief Executive sought confirmation that the Committee understood and was comfortable that the proposal that the contingency is carried forward to the 2020/21 internal audit plan constituted a rational decision. He added that the posts would be filled as soon as possible in the New Year and he would keep Members updated.

The Chair confirmed that the Committee was content with the reassurance given.

A Member noted that the follow up spreadsheet at Appendix 2 recorded a number of occasions whereby a management statement was scheduled to request evidence of implementation. There was a need to ensure that was not too onerous and that Internal Audit had sufficient resources to undertake that work.

The Principal Auditor explained that the formal follow-up process referred to was not too onerous upon Internal Audit.

In response to questions, the Principal Auditor clarified the position regarding the follow-ups scheduled on pages 71 and 72.

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

### Audit of Project Management (Reasonable Assurance Opinion)

- *A Member referenced Section 5.2 (Regulatory – compliance with laws, regulations, policies, procedures and contracts) and specifically paragraph 5.2.2. Bearing in mind that the authority was about to embark upon the Sands Centre Redevelopment, he questioned whether the prescribed process and documentation was adhered to.*

The Officer Manager and PA to the Chief Executive replied that projects were scored on a risk based basis; and that reports on the Sands Centre Redevelopment project had been submitted to the Project Board, Business and Transformation Scrutiny Panel and the Audit Committee. Prince 2 was the preferred methodology and Managers were trained therein.

The Principal Auditor advised that a review had been undertaken last year. No specific concerns were raised.

The Town Clerk and Chief Executive stated that the issue had been the subject of discussion by the Senior Management Team. Prince 2 may not be appropriate in some instances. He considered that there was a need to identify a more modern / flexible means of project management for the future.

### Audit of Tourist Information Services (Reasonable Assurance Opinion)

- *The Committee posed no questions in relation to this audit review.*

### Audit of Bereavement Services (Reasonable Assurance Opinion)

- *A Member referred to Recommendations 10 (the premises handbook should be completed in full) and 11 (the premises handbook should be used to record any incidents at the crematorium). He asked whether failure to complete documentation was a common occurrence.*

The Principal Auditor commented that the issue was one of health and safety. The Risk Management Group would raise it with the relevant Officer.

### Audit of Contaminated Land (Substantial Assurance Opinion)

- *The Committee had no questions or observations to make on this audit review.*

RESOLVED – That the Audit Committee:

1. Noted the progress against the Audit Plan for 2019/20 set out within Report RD.43/19.
2. Received the final audit reports as outlined in paragraph 2.2.
3. Noted the progress made on audit recommendations to date outlined in Appendix 2.
4. Agreed the proposed changes to the Audit Plan in paragraph 5.3 and was content with the reassurance provided.
5. Encouraged further completion of the self-assessment questionnaires to help assess the effectiveness of the Audit Committee.
6. That the font size at Appendix 2 (Progress against previous Audit Recommendations) be increased in future Internal Audit Progress reports.

**AUC.59/19      DRAFT TREASURY MANAGEMENT STRATEGY STATEMENT,  
INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION  
STRATEGY 2020/21**

The Principal Accountant submitted report RD.41/19 setting out the Council's draft Treasury Management Strategy Statement for 2020/21 in accordance with the CIPFA Code of Practice on Treasury Management. The Investment Strategy and the Minimum Revenue Provision Strategy for 2020/21 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 15 January 2020, prior to submission to full Council on 4 February 2020.

The Corporate Director of Finance and Resources highlighted the information provided regarding borrowing and counterparty limits; and providing context on the current economic position.

Members were asked to note and comment upon the proposed Treasury Management Strategy for 2020/21.

A Member extended congratulations to the Financial Services Team on the manner by which the information was provided. He considered the graphs at paragraphs 6.3.3 and 6.3.6 to be particularly useful.

The Chair concurred with those sentiments, noting that Brexit was still ongoing.

RESOLVED – That, subject to the observations detailed above, the Treasury Management Strategy Statement, Investment Strategy and Minimum Revenue Provision Strategy 2020/21 be noted.

**AUC.60/19      TREASURY MANAGEMENT QUARTER 2 2019/20 AND FORECASTS FOR  
2020/21 TO 2024/25**

The Principal Accountant presented report RD.31/19 providing the regular quarterly summary of Treasury Management Transactions for the second quarter of 2019/20 and budgetary projections for 2020/21 to 2024/25.

Members' attention was drawn, in particular, to the information provided in Appendix A.3 (Outstanding Investments as at 30 September 2019); and the draft base Treasury Management estimates for 2020/21 with projections to 2024/25 set out at Appendix C.

Interest receivable was slightly below expectations due to lower than forecast average cash balances and a lower rate of return being achieved on treasury investments when compared to when the budgets were set. However, it was expected that position would improve during the remainder of the financial year as monies received from new borrowing were invested until required to fund expenditure on capital projects. Interest payable was lower due to borrowing being taken part way through the year instead of at the start of the year as assumed in the budget. The rate borrowing was undertaken at was also lower than budgeted. The CCLA property investment saw a decrease in the capital value to the end of September. Dividends and yield levels were currently 4.35%.

The Executive had, on 18 November 2019, received Report RD.31/19 and the projections for 2020/21 to 2024/25 incorporated into the Budget reports considered elsewhere on the Executive Agenda (Minute EX.102/19 referred).

The Business and Transformation Scrutiny Panel had, on 3 December 2019, resolved that the Treasury Management Quarter 2 2019/20 and Forecasts for 2020/21 to 2024/25 be received (Minute BTSP.86/19(f) referred).

The Chair welcomed the report and assurances provided.

RESOLVED – That Report RD.31/19 be noted.

[The meeting ended at 11.00 am]