

AUDIT COMMITTEE

Minutes of the proceedings at a meeting of the Audit Committee held in the District Council Chamber, South Lakeland House, Kendal, on Thursday, 21 July 2016, at 6.30 p.m..

Present

Councillors

Stan Collins (Vice-Chairman)

Joss Curwen
Kevin Lancaster

Matt Severn
Ian Stewart

David Williams

An apology for absence was received from Councillor Stephen Coleman (Chairman).

Officers

Inge Booth	Senior Committee Services Officer
John Davies	Performance and Risk Officer
Dan Hudson	Development Strategy and Housing Manager
Jim Maguire	Community and Leisure Manager
Shelagh McGregor	Assistant Director Resources (Section 151 Officer)
Peter Notley	Chief Accountant
Simon Rowley	Assistant Director Neighbourhood Services
Helen Smith	Financial Services Manager
David Sykes	Director People and Places

Also in attendance were Niki Parker (Internal Audit (Cumbria Shared Internal Audit Service)), Jane Butterfield (Internal Audit (TIAA Limited)), Peter Harrison (Internal Audit (TIAA Limited)) and Jackie Bellard (External Audit).

AUD/1 MINUTES

RESOLVED – That the Chairman be authorised to sign, as a correct record, the minutes of the meeting of the Committee held on 21 April 2016.

AUD/2 DECLARATIONS OF INTEREST

RESOLVED – That it be noted that no declarations of interest were raised.

AUD/3 LOCAL GOVERNMENT ACT 1972 - EXCLUDED ITEMS

RESOLVED – That it be noted that there are no excluded items on the agenda.

AUD/4 TERMS OF REFERENCE

RESOLVED – That the Terms of Reference of the Audit Committee be noted.

AUD/5 STATEMENT OF ACCOUNTS INCLUDING THE ANNUAL GOVERNANCE STATEMENT 2015/16

A training session introducing and explaining the format of the accounts had been delivered prior to the commencement of the meeting.

The production and consideration of the Statement of Accounts was an important element of the financial stewardship of the Council. The format and content were largely governed by statutory best practice, as defined in the Chartered Institute of Public Finance and Accountancy's "Code of Practice on Local Authority Accounting in the United Kingdom 2015/16."

The Assistant Director Resources (Section 151 Officer) reported that she had signed the Statement of Accounts for 2015/16 on 29 June 2016. The Chief Accountant reported on the key issues, making particular reference to having had to account for the December floods.

The Annual Governance Statement was also included within the Statement of Accounts. This provided an important context to the financial information as it set out how internal control had been exercised during the accounting period.

The audit of the draft statements was underway and it was anticipated that the final statements would be brought back to the Audit Committee for authorisation on 21 September 2016.

Members thanked the Finance Team for their work and also took the opportunity to thank all officers involved for the ongoing work in relation to the December floods.

RESOLVED – That the unaudited Statement of Accounts, including the Annual Governance Statement, for 2015/16 be noted.

AUD/6 INTERNAL AUDIT REPORTS 2016/17

The Committee considered executive summaries of recently completed Internal Audit reports, as set out below.

AUD/6a Bereavement Services

The agreed scope of the audit had been to provide assurance over management's arrangements for governance, risk management and internal control in the following areas:-

- Future Planning (including future provision, alternative arrangements, budget management and performance); and
- Fees and Charges (including the Council's policy and transparency of charges made).

From the areas examined and tested, Internal Audit considered that the current controls operating within Bereavement Services provided partial assurance.

Members were provided with details on areas which required improvements in order to strengthen existing control arrangement and with the responses made by management in relation to the recommendations made by Internal Audit.

Members expressed concern that the majority of recommendations fell within Control Objective 1 and thus were related to Management. In response to queries raised in relation to actions to address risks posed by reliance on one individual without documented procedures, the Assistant Director Neighbourhood Services reported that this was being addressed. The Community and Leisure Manager explained that a similar system to that of the Council's Parking Services was now being used to ensure that the charges raised were accurate and that the fees and charges policy was consistently applied. He also advised that the Bereavement Services Officer attended relevant training on current legislation and, in addition, that his experience was used to train officers in other authorities. Members were satisfied with the management response relating to the suggestion for the setting of specific targets or objectives for Bereavement Services, which was felt to be inappropriate. The Community and Leisure Manager confirmed that the service would remain resilient in the event of the absence of the Bereavement Services Officer during a major winter epidemic and that systems could be put in place to deliver the service with assistance from Continental Landscapes Limited, the Council's Grounds Maintenance Contractor. Members expressed the wish for a follow-up of this Audit with an acceptable assurance.

RESOLVED – That the report be accepted, as presented.

AUD/6b Housing Benefits

The agreed scope of the audit had been to provide assurance over management's arrangements for governance, risk management and internal control in the following areas:-

- Claim accuracy (calculations, system validations, exception reporting, supervisory review/sign off);
- Quality assurance arrangements (over data feeding into subsidy return);
- Identification and recovery of overpayments; and
- Performance Management.

From the areas examined and tested, Internal Audit considered that the current controls operating within Housing Benefits provided reasonable assurance.

The Committee was provided with details on areas which required improvements in order to strengthen existing control arrangement and with the responses made by management in relation to the recommendations made by Internal Audit.

Members expressed disappointment at the third medium term priority matter regarding guidance on preparing monthly performance data having not been maintained up to date, reviewed or approved. It was, however, pointed out that the comments had been accepted by management who had taken on board the need to implement the recommendations.

RESOLVED – That the report be accepted, as presented.

AUD/6c Housing Standards

The agreed scope of the audit had been to provide assurance over management's arrangements for governance, risk management and internal control in the following areas:-

- The staffing establishment for the enforcement of housing standards in the private housing sector; and
- Compliance with Disabled Facilities Grants (DFGs) procedures in particular procurement arrangements.

From the areas examined and tested, Internal Audit considered that the current controls operating within the enforcement of housing standards and DFGs provided partial assurance.

Members were provided with details on areas which required improvements in order to strengthen existing control arrangement and with the responses made by management in relation to the recommendations made by Internal Audit.

The Director People and Places and the Development Strategy and Housing Manager responded to questions from Members. Regular reporting of compliance and non-compliance by the Team Leader to the Housing Manager had now been instigated. A complete review of all Housing standards and procedures was currently underway, with the matter of the DFGs policy being paramount. With regard to selecting and awarding contracts, Members were advised that arrangements for DFGs procurement and tendering, including a county-wide approach, were currently being examined by the Procurement and Contracts Manager.

Members expressed concern at the high level of requirement for the updating and documenting of procedures as identified by this audit, and questioned the reasoning behind this. They were advised of recent changes in personnel and management which had led to the request for an audit of the service in order to obtain focus and direction on improving procedures.

RESOLVED – That the report be accepted, as presented.

AUD/6d Leisure Services

The agreed scope of the audit had been to provide assurance over management's arrangements for governance, risk management and internal control in the following areas:-

- The arrangements for management of the leisure partnership contract in accordance with the Council's contract management policy and other best practice contract management framework;
- The adequacy of controls in place for identifying, monitoring and management contractual (operation and strategic) risks; and
- The adequacy and effectiveness of controls in place to monitor and manage the contractor's performance to ensure that there is a drive for continuous improvement and achieving value for money for the Council.

From the areas examined and tested, Internal Audit considered that the current controls operating within the Leisure Contract provided partial assurance.

Members were provided with details on areas which required improvements in order to strengthen existing control arrangement and with the responses made by management in relation to the recommendations made by Internal Audit.

During questions raised by Members, the Director People and Places confirmed that there was adequate provision within the contract for all necessary insurances. In addition, with regard to the medium priority matter relating to non-documentation of contract monitoring procedures, he clarified that contract monitoring was, in fact, frequent and involved and based upon the requirements set out in the Contract, Specification and the Council's Contract Procedure Rules. What was lacking was a documented procedure specific to the practice of the contract managers, which would shortly be produced.

RESOLVED – That the report be accepted, as presented.

AUD/7 REVIEW OF REPORTING REQUIREMENTS FOR PERFORMANCE MANAGEMENT FRAMEWORK AND RISK PROCESS

The Performance and Risk Officer presented a report requesting consideration of a change to the reporting arrangements for the Performance Management Framework and the Risk Process.

Historically, these documents had been reviewed on an annual basis and, as part of governance arrangements, a report had been produced following the review, even if no changes were required. At its meeting on 25 April 2016 (Minute No. AUD/48 (2015/16) refers), the Audit Committee suggested that, if no changes arose from a review, a report may not be necessary. It had also been suggested that the policies may not require a review every year.

The Performance and Risk Officer recommended that both the Performance Management Framework and the Risk Process continue to be reviewed annually, with this being recorded on the version control page of each policy. If significant changes were required to either policy, these would be presented to Cabinet and reported to Audit Committee.

RESOLVED – That the updated reporting arrangements for the Performance Management Framework and the Risk Process be noted.

AUD/8 RISK MANAGEMENT UPDATE

Copies of Appendix 1 to the report, which had been marked “to follow” on the agenda, had been circulated prior to the meeting.

The Performance and Risk Officer presented the Strategic Risk Register which outlined all of those risks above and below the line of risk tolerance. Mitigations designed to reduce the risks in terms of likelihood or impact or both were listed against each risk above the line of tolerance.

The full Strategic Risk Register had been the subject of a review by Senior Management Team on 7 July 2016. The review had considered both new and existing risks, escalated operational risks and, where necessary, the archiving of risks. Appendix 1 to the report showed the results of the review. Three risks had been archived as they were no longer significant. Four risks were above tolerance and, therefore, required regular management and review each quarter. Seven risks had been considered to be below tolerance requiring a review only during Quarter 4. One of the risks above tolerance was a new risk – the Customer Connect Programme. This risk had been escalated from operational level in line with risk management arrangements and now had strategic ownership.

RESOLVED – That the Strategic Risk Register, as attached at Appendix 1 to the report, be noted.

AUD/9 WORK PROGRAMME 2016/17

The Committee was advised by the Financial Services Manager that an additional item had been included on the agenda for this meeting, “Review of Reporting Requirements for Performance Management Framework and Risk Process.” The review on effectiveness of Internal Audit was to be deferred to the Committee’s September meeting, as the Council was currently in the process of moving between two Internal Audit providers. Officers were in the process of co-ordinating to obtain assurance from the last year’s contractor and to satisfy effective arrangements with the incoming contractor.

RESOLVED – That the Work Programme for 2016/17 be noted.

AUD/10 INTERNAL AUDIT RECOMMENDATIONS PROGRESS REPORT

The Committee was presented with an update from the Assistant Director Resources (Section 151 Officer) on the progress made in implementing Internal Audit recommendations.

Thirty recommendations were set out in Appendix 1 to the report, 18 of which had future completion dates. Of the remaining 12, 11 had been completed and one was partially completed.

RESOLVED – That the progress made in implementing Internal Audit recommendations be noted.

AUD/11 EXTERNAL AUDIT PROGRESS AND UPDATE REPORT

Jackie Bellard, External Audit, presented a report providing Members of the Committee with the progress made by Grant Thornton in delivering their responsibilities as External Auditors as at 6 July 2016. The report also included details of emerging national issues and developments that might be relevant to the Council.

RESOLVED – That the progress made by External Auditors be noted.

AUD/12 INTERNAL AUDIT ANNUAL REPORT 2015/16

The Internal Audit Annual Report 2015/16 was presented by Niki Parker, of Cumbria Shared Internal Audit Service, who had provided the Internal Audit service for South Lakeland District Council during the year ended 31 March 2016.

The Report provided a summary of the outcomes of the Internal Audit work and included the Audit Manager's opinion of Reasonable Assurance 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).

Members wished to place on record the Audit Committee's thanks to the Cumbria Shared Internal Audit Services for their work over the past three years.

RESOLVED – That the following be noted:-

- (1) the progress achieved in 2015/16 in delivering the Audit Plan and the outcomes of completed audit reviews, as set out in Appendix 1 to the report;
- (2) the Audit Manager's opinion of Reasonable Assurance on the Council's overall systems of governance, risk management and internal control for the year ended 31 March 2016;
- (3) the Audit Manager's declaration of Internal Audit independence as required by the mandatory Public Sector Internal Audit Standards;

- (4) the Audit Manager's declaration of conformance with the mandatory Public Sector Internal Audit Standards; and
- (5) the outcomes of the quality assurance and improved programme set out in Appendix 3 to the report.

AUD/13 INTERNAL AUDIT ANNUAL PLAN 2016/17

Members gave consideration to a proposed Internal Audit Annual Plan for 2016/17, presented by Peter Harrison of TIAA Limited, the incoming Internal Auditors.

Public Sector Internal Audit Standards (PSIAS) required that the Internal Audit Plan set out a high level statement of how the service would be delivered and developed in accordance with the Internal Audit Charter and how it linked to the organisational objectives and priorities. It was also a requirement of the PSIAS that the Council had an Internal Audit Charter which had been approved by senior management and Audit Committee. The Charter, as attached at Appendix 2 to the report, set out the arrangements for the delivery of the Internal Audit service to the Council.

Members urged the new Internal Audit team to advise the Audit Committee of cases where management responses to internal audit reports were not being received within the required period of ten days. They were also keen to ensure that internal audit reports made reference to previous reports on the same area of work, including details of the recommendations contained within those previous reports.

RESOLVED – That the following be approved:-

- (1) the Internal Audit Annual Plan 2016/17, as attached at Appendix 1 to the report; and
- (2) the Internal Audit Charter, as attached at Appendix 2 to the report.

AUD/14 AUDIT COMMITTEE RISK REGISTER

The Financial Services Manager presented a report to facilitate the annual review of the Audit Committee Risk Register. The Risk Register had last been reviewed by the Audit Committee on 21 April 2016 and the recommendations arising from that meeting had been included.

Members were of the opinion that the likelihood score for Risk AC4 could be lowered as it was improbable that the Council would fail to appoint external auditors in accordance with statutory requirements. They also questioned the score for the likelihood of the Council failing to meet the tighter timescales for the preparation of final accounts from 2017/18 onwards and suggested that the scores in relation to both Risks be reviewed in due course.

RESOLVED – That the updated Audit Committee Risk Register be noted.

AUD/15 OTHER SIGNIFICANT FINANCIAL ISSUES

The Assistant Director Resources (Section 151 Officer) referred to result of the recent Referendum and to the subsequent changes in Government and the potential effects. She advised that the Medium Term Financial Plan 2017/18 to 2021/22 was due to be presented to Council on 26 July 2016 and that it would be updated on a regular basis. Officers would continue to consider potential outcomes and to mitigate against any potential risks.

RESOLVED – That the update on other significant financial issues be received.

The meeting ended at 8.20 p.m.