

AUDIT COMMITTEE

Minutes of the proceedings at a meeting of the Audit Committee held in the District Council Chamber, South Lakeland House, Kendal, on Wednesday, 5 December 2018, at 6.30 p.m.

Present

Councillors

Stephen Coleman (Chairman)

Matt Brereton
Sheila Capstick

Tracy Coward
Eamonn Hennessy

Kevin Lancaster
Matt Severn

Officers

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| Sarah Berry | Projects and Innovation Officer |
| Inge Booth | Senior Committee Services Officer |
| John Davies | Performance and Risk Officer |
| Lee Hurst | Chief Accountant |
| Anthea Lowe | Solicitor to the Council |
| Shelagh McGregor | Assistant Director Resources (Section 151 Officer) |
| Simon McVey | Assistant Director Performance and Innovation |
| Paul Mountford | Principal Performance and Intelligence Officer |
| Helen Smith | Financial Services Manager |

Also in attendance were Peter Harrison (Internal Audit Manager) and Gareth Kelly (External Audit Manager).

AUD/26 CHAIRMAN'S ANNOUNCEMENT

The Chairman referred to the recent passing of Councillor Ian Stewart, Vice-Chairman of the Audit Committee, and paid tribute to his work and commitment to the Audit Committee over several years.

AUD/27 MINUTES

RESOLVED – That the Chairman be authorised to sign, as a correct record, the minutes of the meeting of the Committee held on 19 September 2018.

AUD/28 DECLARATIONS OF INTEREST

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

AUD/29 LOCAL GOVERNMENT ACT 1972 - EXCLUDED ITEMS

RESOLVED – That the item in Part II of the Agenda be dealt with following the exclusion of the press and public.

AUD/30 RISK MANAGEMENT UPDATE

The Performance and Risk Officer presented the Strategic Risk Register (Quarter 2) 2018 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 Strategic Risk Register was reviewed by Senior Management Team each quarter as part of the Council's quarterly performance monitoring and reporting arrangements and that review had informed this report.

The Performance and Risk Officer drew attention to the fact that over 73% of the Strategic Risks were now positioned below the level of risk tolerance which demonstrated the effective mitigation and regular review of the risks.

At its meeting on 25 July 2018, the Audit Committee had suggested that the Strategic Risk 'Medium Term Financial Plan' may have a higher impact than indicated on the risk matrix due to future uncertainty over Government spending reviews. Officers had subsequently undertaken a review of the risk and it had been decided that the matrix position for likelihood and impact was appropriate.

Since the meeting of the Audit Committee on 25 July 2018, one new Strategic Risk has been added to the Register. This new risk was 'Business Continuity: Flu Pandemic - Loss of people, skills and supply chain disruption.' Flu Pandemic was listed in the National Risk Register and the Cumbria Community Risk Register.

A separate item on the Agenda, Customer Connect Programme Management, included information on Customer Connect risks.

The Performance and Risk Officer referred to Risks 6, 9, 14 and 15, which were currently positioned above the line of appetite, and drew attention to the mitigations in place to manage them. In response to a query with regard to the position below tolerance of Risk 5 (Impact of the Welfare Reform on Communities) and concern expressed given the potential adverse impact of Universal Credit, he undertook to carry out an early review of the risk.

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

AUD/31 IMPLEMENTATION OF GENERAL DATA PROTECTION REGULATIONS AND DATA PROTECTION ACT 2018

The Principal Performance and Intelligence Officer informed Members that the Data Protection Act 2018 (DPA) covered the use of personal data within the scope of the General Data Protection Regulation (GDPR) and beyond it. Amongst other provisions, it repealed and replaced the Data Protection Act 1998, incorporated the GDPR into UK law, laid the ground for the free-flow of data between the United Kingdom and the European Union after Brexit, set out permitted exemptions under the GDPR and set out the duties and powers of the UK's Information Commissioner's Office (ICO).

With administrative fines under the new DPA now having an upper limit of 20 million Euros, it was crucial that the Council was compliant with the GDPR/ DPA, as it had been under the Data Protection Act 1998. The report sets out the work undertaken to prepare for and implement GDPR across the Council.

The General Data Protection Regulations Project Initiation Document had been presented to Audit Committee on 6 December 2017 and set out the scope, objectives, outcomes and deliverables of the project.

The Information Governance Board, as outlined in the General Data Protection Regulations Project Initiation Document, had been established to ensure senior leadership, drive and accountability.

The current Principal Performance and Intelligence Officer had been appointed as the Council's Organisational Data Protection Officer. He had qualified as a General Data Protection Regulation Practitioner.

A number of activities were in operation to ensure continued compliance with the law, details of which were provided within the report.

A number of documents, some of which were named within the report, had been formally reviewed by the Management Team and/or Cabinet (where appropriate) to assist Members, Officers, and members of the public.

The Council's Information Asset Register was complete and had been published on the Council's SharePoint site. The Council's Register of Processing Activity, in accordance with Article 30 of the GDPR, was complete and had been published on the Council's dedicated Data Protection SharePoint page.

An Information Asset Register (IAR) was a simple way to help the Council understand and manage its information assets and the risks to them. It was important to know and fully understand what information the Council held in order to protect it.

In support of the Council's IAR, the Information Handling and Classification Protocol was in place and would be applied in accordance with the overall GDPR/DPA 2018 implementation.

A generic corporate Privacy Notice had been published on the Council's website covering all services provided by the Councils. Alongside this Privacy Notice, service specific Privacy Notices for every service were being added. Privacy Notices advised the Council's customers what information about them was collected, when it was collected, how it was used, how long it was kept and whether it was shared, and with whom. The Notices also set out peoples' rights under GDPR and DPA 2018. Publication of Privacy Notices was an ongoing task, and the Notices published to date could be found on the Council's website.

A Data Protection Impact Assessment (DPIA) had to be performed where processing was likely to result in a high risk to the rights and freedoms of natural persons. Where the Information Asset Registers had identified that the Council was holding sensitive data (for example ethnic origin, religion, health data), a DPIA would need to be completed to risk assess such data and ensure it was held as securely as possible.

A template Data Processing Agreement had been implemented and shared with Procurement Services which would accompany all procurement documents where it was considered relevant.

A Data Breach Notification Protocol was in place and was available to all Officers through the dedicated Data Protection SharePoint page.

A procedure for implementing the Subject Access process was in place. The amended Subject Access Request form was available to the public via the Council's website.

In closing, the Principal Performance and Intelligence Officer informed Members that an audit of Information Governance was due to take place in February 2019. In response to a query raised about cyber security and robustness of systems, he explained that he had been working closely with the IT department with regard to site security and a full audit had been carried out to ensure that governance arrangements were in place. Additional work was being carried out around firewalls and updates and how data was retained, either on or off site. Work was also ongoing regarding the issue of the Right to be Forgotten.

The Chairman referred to the delivery of training for Members and requested that the relevant slides be made available. He also raised the need for Members to be aware of their individual responsibilities with regard to meeting the Information Commissioner's Office requirements.

RESOLVED – That the update on the introduction of the General Data Protection Regulations and Data Protection Act 2018 across the Council be noted.

AUD/32 PRESS AND PUBLIC

RESOLVED – That, under Section 100(A)(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Part 1 of Schedule 12 A of the Act as amended by the Local Government (Access to Information) (Variation) Order 2006 by virtue of the Paragraph indicated.

AUD/33 CUSTOMER CONNECT PROGRAMME MANAGEMENT

- *Paragraph 3 - Information relating to the financial or business affairs of any particular person (including the authority holding that information)*

Further to AUD/13 (2018/19), the Assistant Director Performance and Innovation, the Senior Responsible Officer and Senior Lead for the Customer Connect Programme, and the Projects and Innovation Officer, acting as Customer Connect Programme Officer, provided a further update on the management of the Customer Connect Programme and, specifically, the Programme's risks and programme spend against budget.

The Customer Connect Programme Officer presented a live version of the risk register which contained the most up to date information.

Both officers responded to queries raised by Members of the Committee.

RESOLVED – That the following be noted:-

- (1) the Programme Management Workbook at Appendix 1 to the report, including:-
 - summary page;
 - risk heat map;
 - risk log;
 - issue log;
 - dependency log;
 - change log; and
 - product log; and
- (2) the monthly Programme Overview of Spend against the approved budget at Appendix 2 to the report.

AUD/34 RE-ADMISSION OF PRESS AND PUBLIC

RESOLVED – That the press and public be re-admitted to the meeting.

AUD/35 AUDIT COMMITTEE 2018/19 WORK PROGRAMME

The Financial Services Manager advised that there had been no changes to the Work Programme since the last meeting, however, that she intended to update the name of the Lead Officer for External Audit to reflect that there had been a change in Grant Thornton's Engagement Lead from John Farrer to Gareth Kelly.

RESOLVED – That progress against the 2018/19 Work Programme be noted.

AUD/36 EXTERNAL AUDITOR'S PROGRESS REPORT AND UPDATE

Gareth Kelly, External Audit, presented a report providing the Committee with a summary of the progress made by Grant Thornton in delivering their responsibilities as the Council's External Auditors as of November 2018. The report also included details of emerging national issues and developments that might be relevant to the Council.

In presenting the report, Mr Kelly indicated that External Audit had now concluded the certification work for the 2018/19 claim, in line with the November deadline. Planning processes had commenced for the 2018/19 financial year audit. He also drew particular attention to Grant Thornton's recent report on latest trends in local authority trading companies which, he felt, provided practical information.

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

AUD/37 INTERNAL AUDIT PROGRESS REPORT 2018/19

Peter Harrison, Internal Audit, introduced the Internal Audit Progress Report 2018/19. The report provided a summary of the progress against the Internal Audit Annual Plan as at 20 November 2018.

Following the Internal Audit Plan's approval by Committee in April 2018, five assurance reviews had been finalised and the report contained the executive summary of the one which had been completed since the last meeting, Business Continuity. It had been intended that three other reports would be presented to this meeting of the Committee and reasons for the delay were provided. These reports on Use of Agency, Interim and Casual Workers; Health and Safety – Property Risks; and Cyber Security, would now be presented to the Committee in April 2019. There had been no changes proposed to the Annual Plan, however, the proposed audit of additional DFG monies had been cancelled, as the Council had not drawn down any grant.

Mr Harrison presented the executive summary relating to the review of Business Continuity which had resulted in an assessment of substantial assurance, no action points having been identified. The overall conclusion was that the Council had robust Business Continuity arrangements in place to prevent or minimise the time that the public were separated from critical services. The Chairman commended the assessment of substantial assurance, as this was an area which had been of concern for a number of years.

Internal Audit had also assessed the extent to which previous internal audit recommendations had been implemented. The report showed that 16 recommendations were yet to be implemented. Nine were on target and there were seven in progress where the original target dates had not been met. 11 recommendations had been implemented and were now considered closed.

RESOLVED – That the following be noted:-

- (1) the progress achieved in 2018/19 in delivering the Audit Plan and the outcomes of completed audit reviews, as set out in Appendix 1 to the report;
- (2) the attached audit report, as set out in Appendix 2 to the report; and
- (3) the status of outstanding recommendations contained within the follow up report, as set out in Appendix 3 to the report.

AUD/38 ACCOUNTING POLICIES 2018/19

The Chief Accountant presented a report outlining proposed accounting policies to be adopted for the 2018/19 financial year and to be used in the preparation of the Statement of Accounts for the financial year ending 31 March 2018. These had been prepared in line with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Local Authority Accounting in the UK 2018/19 (the Code).

The Chief Accountant explained that the CIPFA Code of Practice on Local Authority Accounting provided a definition of accounting policies which, essentially, set out that accounting policies should be the cornerstone of good financial control and should explain how an organisation applied accounting standards and legislation. He went on to explain that, whilst there was little discretion in which accounting policies to adopt, there was some flexibility in the accounting methods that could be followed.

There had been substantial changes to the 2018/19 CIPFA Code of Practice on Local Authority Accounting which had come into effect for financial years beginning 1 April 2018. These changes were in the areas of Revenue recognition and Financial Instruments due to the adoption, by the Code, of International Financial Reporting Standard (IFRS) 15 - Revenue from Contracts with Customers and IFRS 9 - Financial Instruments. The adoption of these new IFRSs in the 2018/19 Code constituted a change in accounting policy which would normally require restatement of the previous year's accounts, but the Code contained provisions for transitional arrangements which only required adjustments to 1 April 2018 opening balances rather than full prior-year restatement.

As a result of the adoption of IFRSs 15 and 9 in the 2018/19 Code, the Council's own Accounting Policies for 2018/19, presented at Appendix 1 to the report, had been updated to ensure they remained in line with the 2018/19 Code requirements, and details of the changes were provided.

At the time of writing the report, the Ministry for Housing, Communities and Local Government had just published the results of a consultation on a statutory override for Local Government in relation to accounting for IFRS 9. This meant that some charges to the accounts as a result of adopting IFRS 9 should be statutorily reversed. Because of this consultation outcome, CIPFA had delayed publication of the CIPFA's Code of Practice on Local Authority Accounting in the UK 2018/19 Guidance Notes for Practitioners. Therefore, the Council's current accounting policy was based on the original legislation and draft guidance. Once published, should the new legislation and guidance require any change to the Council's accounting policies, a further report would be brought to a future meeting of the Audit Committee.

It was good practice to consider and adopt the accounting policies in advance of the production and approval of the draft accounts. By statute, preparation of draft accounts had come forward to 31 May following the relevant year end, for financial years 2017/18 onwards. At the same time, the audited statements needed to be published by 31 July following the relevant financial year end; the Council had successfully prepared the 2017/18 accounts to the new timetable.

RESOLVED – That the accounting policies, as set out at Appendix 1 to the report, be adopted for closure of the 2017/18 Accounts.

AUD/39 REVIEW OF CONSTITUTION

The Audit Committee's Contribution to the Review of the Constitution was presented by the Financial Services Manager. The review concentrated on the areas of the Constitution with a direct impact on the financial controls of the Council contained within the Financial Procedure Rules and the Contract Procedure Rules and fed into the Monitoring Officer's annual review of the Constitution.

The review had identified a number of changes which were highlighted within the appendices to the report, namely:-

- to extend the current virement rules for revenue budgets to capital programme and reserves;
- to clarify terminology and update references to other documents;
- to propose more delegation around the use of reserves. Under the current arrangements approval to use reserves is needed from Council as part of the final accounts process but there is not a Council meeting between the finalisation of the reserve movements and the approval of the accounts by Audit Committee;
- to clarify that the Monitoring Officer can agree it is not expedient to comply with certain contract requirements, such as signing under seal or the use of Council policies. This reflects the growing use of framework agreements where the terms and conditions to be used have already been agreed and will give the Council appropriate protection; and
- to remove references to paper tenders: all tender documents are now submitted electronically.

The changes proposed would apply from the date of Council approval for the remainder of the current financial year and subsequent years.

Further amendment of the Constitution would be required to reflect changes to the Leadership structure and other changes to job titles. These changes would be included in the Monitoring Officer's review of the Constitution and would not be separately reviewed by Audit Committee before submission to Council.

RESOLVED – That the proposals for amendments to the Constitution, as set out within the appendices to the report, be recommended to Council for approval.

AUD/40 AUDIT COMMITTEE RISK REGISTER

The updated Audit Committee Risk Register was presented by the Financial Services Manager. The Risk Register had last been reviewed by the Committee on 25 July 2018 and the recommendations from that meeting had been included within the update. The Financial Services Manager had not identified any further proposals for change.

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

AUD/41 REVIEW OF LOCAL CODE OF GOVERNANCE

The review of the Local Code of Governance was presented by the Financial Services Manager.

Under the Accounts and Audit Regulations (2015), the Council was required to review the effectiveness of the system of internal control annually and report this through an Annual Governance Statement. The Chartered Institute of Public Finance and Accountancy (CIPFA) had published a revised version of their governance framework for local authorities. This counted as proper practice and was to be applied for financial years from 1 April 2016 onwards. The new framework had been re-arranged from the previous framework's six principles to seven, in line with CIPFA's broader International Framework: Good Governance in the Public Sector (2014).

The Local Code approved in December 2015 and Annual Governance Statement (AGS) had been prepared under the new framework for 2016/17 and 2017/18. During 2017/18 the Council's internal auditors had undertaken a review of the Local Code and had concluded that there was reasonable assurance but that the existing procedures could be streamlined. The recommendations had been:-

- To evidence greater alignment with the Guidance, self-assessment be made against each of the Guidance's suggested Examples of Behaviours and Actions, rather than (or as well as) against the adopted sub-principles of its Local Code.
- The Responsible Officer for each adopted sub-principle in the Local Code be referenced in all cases to the Officer's post, rather than to the Officer's name or a reference to the Constitution.
- The spreadsheet that is used to evidence compliance with the Local Code be updated to reflect the proposed changes to the Local Code that were presented to the Audit Committee and subsequently to Council in December 2017.
- The mapping of the Guidance behaviours and actions that demonstrate good governance in practice be mapped only to sub-principles in the Local Code that pertain to the same principle to which the behaviour and action relate.
- Each line in the Guidance's list of examples of systems, processes, documentation and other evidence demonstrating compliance be mapped to a referenced sub-principle, rather than being marked as duplicate.

The first three recommendations had been implemented in the AGS for 2017/18. The last two recommendations required changes to the Local Code of Governance itself.

There had been one action added to the Local Code:-

- D14 - Consider social value when preparing service plans, considering procurement and commissioning and monitoring performance.

References to local area agreements had been removed and references to standards and guidance had been updated. The majority of amendments were to include behaviours and actions under all principles to which they applied. As a result some behaviours and actions were duplicated.

Appendix 3 to the report showed the CIPFA principles, sub-principles, example behaviours and actions that demonstrate good governance in practice and examples from the CIPFA guidance with the Local Code reference for each.

An action plan to address areas for improvement in the Council's governance arrangements had been presented as part of the approved 2017/18 AGS. This had been presented to Audit Committee on 25 July 2018. Appendix 4 provided an update on progress against the various actions.

RESOLVED – That

- (1) the proposed revisions to the Local Code of Governance, as at Appendix 1 to the report, be noted;
- (2) Council be recommended to approve the amended Code, as at Appendix 2 to the report; and
- (3) the Annual Governance Statement Action Plan, as at Appendix 3 to the report, be noted.

AUD/42 REVIEW OF EFFECTIVENESS OF AUDIT COMMITTEE

The Financial Services Manager reported that the annual review of the Audit Committee's effectiveness had been carried out using principles established by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Members were informed that CIPFA had published updated Practical Guidance for Local Authority and Police Audit Committees in 2018, which included the suggestion that a lay or independent member should be included in Audit Committees, although this was not a requirement.

The conclusion of the review, which used a questionnaire approach shown at Appendix 1 to the report, was that the Committee could demonstrate that it had been established in accordance with best practice and that it continued to operate effectively, whilst operating without an independent member. The Committee needed to be alert to any changes in its membership and the expertise of its Members so that suitable training could be arranged and Appendix 2 to the report included a skills framework.

CIPFA's Practical Guidance also included suggested terms of reference for audit committees and it was pointed out that the Committee's Terms of Reference had been revised in December 2014 to reflect this. The Practical Guidance also included possible wider functions of an audit committee:-

- considering governance, risk or control matters at the request of other committees or statutory officers;
- working with local standards committees to support ethical values and reviewing the arrangements to support those values; and
- reviewing and monitoring treasury management arrangements in accordance with the CIPFA Treasury Management Code of Practice.

Audit Committee did support some work of the Standards Committee to support ethical values, particularly around reviewing whistleblowing arrangements. For South Lakeland District Council, the treasury management scrutiny function was carried out by the Overview and Scrutiny Committee. The Terms of Reference did not refer to requests for consideration of matters from other committees or statutory officers: any such proposals needed to be considered on a case-by-case basis, bearing in mind the need to maintain the independence of the Audit Committee.

Members discussed the suitability of seeking an independent member to sit on the Committee. Both Gareth Kelly, External Audit, and Peter Harrison, Internal Audit, were of the opinion that this was not necessary in the context of local government. The Committee did not feel it appropriate at this time to make such an appointment, however, suggested that the matter be kept under review.

RESOLVED – That

- (1) the review, and its conclusion that the Audit Committee is operating effectively in all material aspects, be approved;
- (2) an independent member be not sought for the Audit Committee at this time; and
- (3) the skills framework for members of the Audit Committee, as at Appendix 2 to the report, be noted.

AUD/43 OTHER SIGNIFICANT FINANCIAL ISSUES

The Assistant Director Resources (Section 151 Officer) drew attention to the fact that the 2019/20 to 2023/24 Draft Budget was due to be considered by Council at its meeting on 18 December 2018. She referred to the fact that the Local Government finance settlement had been delayed due to discussions on Brexit, however, advised that a verbal update would be incorporated at the meeting, as necessary.

RESOLVED – That the verbal update be noted.

The meeting ended at 7.45 p.m.