

AUDIT COMMITTEE

Minutes of the proceedings at a meeting of the Audit Committee held in the Georgian Room, Kendal Town Hall, on Thursday, 21 April 2016, at 6.30 p.m.

Present

Councillors

Stephen Coleman (Chairman)

Ben Berry
Stan Collins

Joss Curwen
Ian Stewart

Apologies for absence were received from Councillors Pru Jupe and Kevin Lancaster.

Officers

John Davies
Sandip Mahajan
Shelagh McGregor
Helen Smith

Performance and Risk Officer
Democratic Services and Scrutiny Officer
Assistant Director Resources (Section 151 Officer)
Financial Services Manager

AUD/42 MINUTES

RESOLVED – That the Chairman be authorised to sign, as a correct record, the minutes of the meeting of the Committee held on 3 December 2015.

AUD/43 DECLARATIONS OF INTEREST

RESOLVED – That it be noted that Councillors Stan Collins and Ian Stewart declared interest in Minute AUD/53 (2015/16).

AUD/44 LOCAL GOVERNMENT ACT 1972 - EXCLUDED ITEMS

RESOLVED – That it be noted that there were no items in Part II of the Agenda.

AUD/45 APPOINTMENT OF THE AUDIT PANEL

An Audit Panel of three Members would consider, in detail, the Annual Governance Statement, with recommendations to the Audit Committee in time to meet statutory reporting deadlines.

RESOLVED – That, subject to any membership changes that arise at Annual Council, a provisional Audit Panel comprising of Councillors Collins, Lancaster and Stewart be convened on Wednesday, 25 May 2016, 2.00 pm.

AUD/46 WORK PROGRAMME 2015/16

The Financial Services Manager explained that the Audit Committee's agreed Work Programme for 2015/16 would be completed as presented.

This included two changes for this meeting (April 2016). The options for arranging to appoint a future external auditor were an additional item being considered at this meeting. The Internal Audit Plan 2016/17 was being drafted but deferred to the July 2016 meeting to allow for the transition to the new Internal Auditor, TIAA Ltd.

RESOLVED – That the Work Programme for 2015/16 be noted.

AUD/47 WORK PROGRAMME 2016/17

The Financial Services Manager presented the Audit Committee's proposed Work Programme for 2016/17 which was subject to meeting dates being confirmed at Annual Council.

The Programme was similar to 2015/16. However, it was unknown yet what reports would be required for the appointment of a future external auditor and there would be two Internal Audit Plans. This reflected the transition to a new internal auditor so there would be a draft Plan for 2016/17 at the start of the year and a refined Plan for 2017/18 in April 2017.

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

AUD/48 REVIEW OF PERFORMANCE MANAGEMENT FRAMEWORK AND RISK PROCESS

The Performance and Risk Officer explained that the annual review of the Performance Management Framework 2014-19 and Reporting Timetable 2016-17 had taken place. The Framework involved establishing targets, actions through service planning, and data reporting for performance monitoring of targets. The Framework depended on the Council Plan content and annual updates to the Plan. No changes were proposed to the Framework.

The annual review of the Risk Management Process had also taken place. This outlined how risks to priorities and service delivery were identified and control of risks through mitigation actions to eliminate or reduce risks to acceptable levels of impact. No significant changes were proposed. There had been one minor change, as an audit requirement, that reference was made in the process document to the potential of risks through fraud and corruption.

Members remarked that no significant changes indicated that Performance and Risk Management were sound and queried when the last significant changes had been made. They suggested that, if there were no issues and to make best use of resources, then future updates needed to be considered on a more proportionate basis not always requiring annual updates. Following consultation with senior

management and the auditors, a short report of the best options for future reporting would be presented to the July 2016 Audit Committee meeting.

RESOLVED - That

(1) the Performance Management Framework (April 2016) required no changes be noted;

(2) the updated Risk Management Process (April 2016) be noted; and

(3) a short report of the best options for reporting future updates of the Performance Management Framework and Risk Management Process, be presented to the July 2016 Audit Committee meeting.

AUD/49 ACCOUNTING POLICIES 2015/16

The Financial Services Manager explained that approved accounting policies were required to produce quality annual accounts. In line with best practice, and to ensure national accounting compliance, the policies were annually reviewed prior to producing the accounts.

Some changes had been made to the 2014/15 policies. A new policy had been introduced for the use of 'Fair Value' as the method for measuring values (recognition) of assets and liabilities and/or disclosures for relevant assets and liabilities which had departed from the Fair Value approach. More generally policies that no longer applied or had nominal relevance had been 'de-cluttered', i.e. where the Council did not have material transactions (including inventory and finance leases).

RESOLVED – That the Accounting Policies, at Appendix 2 of the report, be adopted and used to close the 2015/16 Accounts.

AUD/50 INTERNAL AUDIT RECOMMENDATIONS AND ANNUAL GOVERNANCE STATEMENT ACTION PLAN - PROGRESS REPORT

The Assistant Director Resources (Section 151 Officer) presented a progress report on implementation of Internal Audit recommendations and the Annual Governance Statement (AGS) Action Plan. The Action Plan had proved an effective monitoring tool that had significantly increased progress with implementing recommendations to over 95%.

There were 27 Internal Audit recommendations of which 10 had future completion dates; of the 17 recommendations due, four had been completed and 13 partially completed.

The AGS Action Plan contained three longer-term actions with progress for all on track.

The report also covered managing the risk of fraud and corruption in line with the CIPFA Code of Practice and local codes. Six areas had been identified which

required some improvement of which three had been actioned and three were being pursued.

Members recognised the high rate of implementation and queried getting the rate to 100% of all recommendations implemented. It was explained that this was always the aspiration but there were external factors not within local control which often involved longer-term projects such as data governance requirements of the Digital Connect programme. Members recognised that there was an organisational culture which aimed to maximise implementation of recommendations and expressed their appreciation to staff. They also requested that future reports be printed in colour.

RESOLVED – That the progress made with implementing Internal Audit recommendations and progress made against the Annual Governance Statement and Fraud and Corruption Action Plans be noted.

AUD/51 INTERNAL AUDIT PROGRESS REPORT 2015/16 (NO. 4)

The Head of Internal Audit presented this report which summarised the work carried out by Internal Audit and progress made on the delivery of the approved Audit Plan in period four of 2015/16. The Internal Audit Annual Report would be presented to the July 2016 Audit Committee.

Council staff had needed to focus on flooding support, impacting on audit work, but six audits were now nearing completion and two had been completed. Additional work, not in the original Plan, had been completed on the Rural Growth Network grant claim (Kendal Enterprise Centre). Due to the flooding support work, the scheduled audit on the Procurement Service had been deferred. The number of audit days in the Plan had been amended to reflect these changes as well as the lower than planned number of days for the IT Audit. The report included the performance of Internal Audit; all targets had been achieved or exceeded.

Members were also informed that senior management were now providing a 100% response to Internal Audit reports and recommendations. Members complimented management on this and asked that this be relayed back.

The Head of Internal Audit outlined the findings and recommendations of the two recently completed audits on the Use of Agency and Interim Staff and Treasury Management.

Audit of Use of Agency and Interim Staff

The audit of Use of Agency and Interim Staff had reviewed the effectiveness of policies, procedures and guidance; recruitment and procurement of agency and interim staff including use of preferred suppliers and tax implications; and monitoring and reporting of the use of agency and interim staff.

A reasonable assurance had been given with three medium priority recommendations. The strengths of the service were also recognised.

The medium priority recommendations on use of agency and interim staff concerned drafting relevant written recruitment guidance for inclusion in the Recruitment and Selection Policy and creating recruitment authorisation forms; developing corporate purchasing for recruitment and producing regular performance reports on the use of these staff.

Members referred to the last two full years (2013/14, 2014/15) of spend on agency and interim staff which amounted to £536k and how this compared to the total spend on salaries. They were informed that this was just over 4% of the wages bill of £12m.

Members agreed with regular monitoring reports and queried who these would be considered by. They were informed that these would form part of the quarterly corporate financial monitoring reports which currently contained them under other headings. Members requested that significantly high 'one-off' staffing costs, e.g. for major projects, should be highlighted.

Members queried the high costs for the kerbside recycling service and whether these staff were trained in line with relevant standards. They were informed that robust training was provided and the service had now moved to more permanent staff with temporary staff costs expected to decrease by about £80k to £50k.

Members requested details of what training was being proposed for managers. They were told that this would be face-to-face training covering recruitment procedures, procurement of staff and securing value for money.

Audit of Treasury Management

The audit of Treasury Management had reviewed the effectiveness of policies and procedures including data governance; budgeting, monitoring and reporting; loans and investments; external providers and in-house staffing.

A substantial assurance had been given with two advisory recommendations. The strengths of the service were also recognised including resilient staffing, clear record-keeping of transactions, accurate lists of permitted counterparties and regular re-tendering of external advice.

The advisory recommendations concerned needing a formal process for reviewing and approving procedures, and also needing formal documentation for delegations to approve transactions.

RESOLVED – That the progress made against the agreed 2015/16 Audit Plan be noted.

AUD/52 EXTERNAL AUDIT CERTIFICATION REPORT 2014/15

The External Audit Manager presented the findings of grant certification work for 2014/15.

There had been only one grant claim (Housing Benefit Subsidy Claim) made in 2014/15 which required certification and totalled £19.66m. There had been good

early engagement with the Housing Benefits section. External Audit were satisfied with the Council's arrangements for a properly accounted for claim made on time. Detailed testing had found minor errors with some under/overpayments to benefit claimants and rent rebates. This had resulted in a nominal value of amendments (£4,641) resulting in the £19.66m subsidy claim being reduced by £2,628.

The External Audit Manager added that there had been a progressive decline in the number of errors in recent years. This meant less demands on audit time which was reflected in an audit fee reduction for the certification work of £1,060. Members requested that staff be complimented upon their continued progress.

RESOLVED – That the External Audit Grant Certification report for 2014/15 be noted.

AUD/53 EXTERNAL AUDIT PLAN 2015/16

Note - Councillors Stan Collins (as a Member of the Cumbria Pension Committee) and Ian Stewart (as the Chair of the Cumbria Pension Board) respectively declared an Other Registrable Interest in relation to the Cumbria Pension Fund.

The External Audit Manager presented details of the risk-based Audit Plan 2015/16. This covered work required to understand the wider local government sector and the Council's position with particular regard to consideration of the range of risks faced by the Council.

This fed into their review and opinion of the Council's financial statements and would help inform their conclusion on the Council's value for money (vfm). This work was risk-based in line with revised National Audit Office vfm guidance.

The range of work would largely take place from July 2016 and conclude by the end of September 2016. An interim site visit had taken place.

The External Audit Manager referred to significant risks which included two mandatory areas for reviewing. The first was ensuring that any area of potential financial fraud including the risk of revenue financial statements being misrepresented was robustly challenged, controlled and the risk minimised. External Audit felt that there was no evidence of such fraud arising with existing robust controls. The second area was the risk of management over-ride of controls. Work would be undertaken on this risk including reviewing management actions and significant transactions and testing systems data.

A third significant risk had been identified which related to the financial impact of flooding on the accounts. This included direct and indirect costs, grant income/payments, other transactions and assets.

There were two other significant risks concerning estimated valuations. The first concerned assets and ensuring valuations were accurate. The second concerned the pension fund, liabilities and accurate valuations.

Members recognised that there had been urgent need to process flooding payments and there needed to be assurance of the controls in place including any retrospective actions. They also requested the gross and net flooding costs from officers. Finance officers stated that the actions had been approved in line with

Council requirements. External Audit had planned work related to flooding costs and transactions.

Members felt that pension risks and liabilities could arise if other members of the Cumbria Pension Fund had issues. This included inaccurate data reporting. Robust auditing for all pension members was important. It was explained that this was the responsibility of pension administrators to ensure all members were fulfilling relevant obligations including accurate data provision. Finance officers added that pension considerations would also be reviewed through the forthcoming Medium Term Financial Plan (MTFP). This was an identified risk within the MTFP but would be reviewed through management and considered for the strategic risk register as suggested by Members. Regular discussions also took place with chief finance officers across Cumbria.

RESOLVED – That

- (1) the planned work (Audit Plan 2015/16) for the audit of the Council's financial statements and value for money conclusion be noted; and
- (2) the findings from the interim audit work be noted.

AUD/54 EXTERNAL AUDIT FEE LETTER FOR 2016/17

The External Audit Director presented the 2016/17 External Audit Fee Letter. She explained that the scale of the fee had been set by Public Sector Audit Appointments Ltd. The fee scale was based on a work programme which comprised of statutory requirements. Both the work and fee were largely the same as 2015/16. The fee was £55,851 and had been reduced in 2015/16 reflecting reduced issues for External Audit. Any extra work would be in agreement with the Council and charged as such.

Members queried who certified or assessed flooding grants. It was thought that the £5k flood resilience grants for individual residential and business properties was the only flood grant that would fall within this scope and likely to be reviewed by Internal Audit. Finance officers added that the staffing cost of this grant and other costs relating to flooding relief from business rates and council tax etc would amount to around £250k. Government had refused requests for these costs to be reimbursed.

RESOLVED – That the Audit Fee for 2016/17, as set out in the External Audit Fee Letter, be noted.

AUD/55 EXTERNAL AUDIT - PROGRESS REPORT

The External Audit Director presented the progress report of Audit work undertaken during the year and remaining planned work. Interim audit work had taken place on the accounts and remaining work from July concluding in September was planned. Value for money work was on-going.

Details were provided of some new local government accounting issues. These included the new Fair Value method of asset valuations which needed to be considered as part of accounting policies and had been recognised as such.

Highway authorities had an added requirement relating to a new Highway Network Asset (all transport infrastructure treated as one asset) but it was unlikely that there would be any direct impact on district councils although districts needed to check this. Business rates appeals were still an issue but unlikely to be significant as there was a limit on backdating.

The External Audit Director referred to some publications and resources they had produced for local government. These included chief financial 'insights' and also a CIPFA database for statistics that could be used at ward level. It was suggested that this resource could be brought to the attention of the Council's performance management officers.

RESOLVED – That the progress made on the audit and summary of emerging issues be noted.

AUD/56 CHANGES TO ARRANGEMENTS FOR APPOINTMENT OF EXTERNAL AUDITOR

The Financial Services Manager presented this report. Following the Audit Commission closing, transitional arrangements had been adopted for appointing the External Auditor until 2017/18. Arrangements now needed to be considered for appointing new external auditors in good time to take over from 2017/18.

There were three options: the Council could make its own individual appointment; could pursue a joint or local arrangement; or express interest in opting-in to a (national) sector led body. The report set out the advantages and disadvantages of each option with a recommendation to express interest in the sector led body which offered most advantages including economies of scale and cost-efficiencies and was the preferred option of the Cumbria Chief Finance Officers. This interest needed to be expressed by end April 2016.

RESOLVED – That

- (1) the Council indicates its interest in the opting-in to the Sector Led Body approach for the appointment of External Auditors; and
- (2) it be noted that a formal decision to opt-in will be required at a later stage.

AUD/57 AUDIT COMMITTEE ANNUAL REPORT 2015/16

The Chairman presented the Audit Committee's Annual Report for 2015/16 which outlined the Committee's work over the past year and was similar in format to previous annual reports.

RESOLVED – That the Audit Committee's Annual Report for 2015/16 be noted and the Chairman be authorised to submit the Annual Report to Council.

AUD/58 AUDIT COMMITTEE RISK REGISTER

The Financial Services Manager explained that this Risk Register concerned ensuring the effectiveness of the Audit Committee (AC) in delivering its functions.

The Register had last been updated by the Committee at its July 2015 meeting. There had been two existing risks at the time which had been reviewed and two new risks had been identified.

Risk AC 1 (ineffectiveness due to inexperienced Members) had been felt to no longer represent an unacceptable risk due to the experience of long-standing Members and training for new Members so had been down-graded.

Risk AC 2 (government funding reductions impacting upon resources and support for Members impacting upon their effectiveness).

Risk AC 3 (earlier statutory reporting timetable for the final accounts from 2017/18) was being tackled with earlier reporting targets being pursued in the years preceding 2017/18 so by 2017/18 there would be robust systems in place. External Audit would monitor this and provide an update to July 2016 meeting of the Audit Committee.

Risk AC 4 (arrangements for appointment of a future External Auditor by end December 2017) was recognised as a risk although the Audit Committee had agreed at this meeting to express interest in a (national) sector led body option which meant work could progress.

Nine risks had been archived over time. Members agreed with those archived.

Members wondered why Risk AC 2 (impact of funding reductions) was the highest point for both likelihood and impact. It was explained that this risk was not in the Council's control (government funding) and so there could be a significant impact. Members felt that the impact could be mitigated and it was for management and Members to ensure that sufficient local funding and staff resources were committed. They felt that the wording of this risk could be refined and the likelihood needed to be reviewed with the Risk Register (Risk AC 2 focus) being reviewed again at the July 2016 meeting. Members also requested that Risk AC 4 (external auditor appointment) also be reviewed in detail, with particular reference to likelihood, at the July meeting

RESOLVED – That the updated Audit Committee Risk Register be noted with requested changes made to identified risks and a revised Register reported back to the July 2016 meeting.

AUD/59 OTHER SIGNIFICANT FINANCIAL ISSUES

RESOLVED – That there were no significant issues be noted.

The meeting ended at 8.00 p.m.