

AUDIT COMMITTEE

Minutes of the proceedings at a meeting of the Audit Committee held in the Bindloss Room, Kendal Town Hall, on Tuesday, 9 April 2019, at 6.30 p.m.

Present

Councillors

Stephen Coleman (Chairman)

Sheila Capstick
Tracy Coward

Eamonn Hennessy
Kevin Lancaster

Officers

Courage Aiguobasimwim	Trainee Solicitor
Sarah Berry	Projects and Innovation Officer
Inge Booth	Senior Committee Services Officer
John Davies	Performance and Risk Officer
Claire Gould	Performance, Innovation and Commissioning Lead Specialist
Julia Krier	Solicitor (Property and Contracts)
Anthea Lowe	Solicitor to the Council
Helen Smith	Finance Lead Specialist (Section 151 Officer)
Debbie Storr	Director of Policy and Resources (Monitoring Officer)
David Sykes	Director of Strategy, Innovation and Resources

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

AUD/44 MINUTES

RESOLVED – That the Chairman be authorised to sign, as a correct record, the minutes of the meeting of the Committee held on 5 December 2018.

AUD/45 DECLARATIONS OF INTEREST

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

AUD/46 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/47 AUDIT COMMITTEE 2018/19 WORK PROGRAMME

The Finance Lead Specialist (Section 151 Officer) presented a report on progress against the Committee's 2018/19 Work Programme. She informed Members that, although the 2017/18 Annual Internal Audit Report had not been scheduled for presentation to Committee until the July 2019 meeting, it had instead been included on the Agenda for this meeting, due to it having been prepared early. This would help in preparation of the Annual Governance Statement as part of the annual accounts process.

RESOLVED – That progress against the Audit Committee's 2018/19 Work Programme be noted.

AUD/48 AUDIT COMMITTEE 2019/20 WORK PROGRAMME

The Finance Lead Specialist (Section 151 Officer) presented a draft Work Programme for the Audit Committee for 2019/20. She informed Members that the Programme could be adapted as necessary during the year and that firm meeting dates would be set when the Council considered the Calendar of Meetings for the forthcoming year at its Annual Meeting on 21 May 2019. She pointed out that the bi-annual review of the Whistleblowing Policy was due to be considered in September 2019.

RESOLVED – That the draft Work Programme for 2019/20 be agreed, subject to confirmation of the Council's Calendar of Meetings.

AUD/49 CHAIR OF THE AUDIT COMMITTEE'S ANNUAL REPORT 2018/19

The Committee considered the Chair's Audit Committee Annual Report 2018/19. The report summarised the activities of the Committee during the current Council Year and, subject to approval, would be submitted to Council in May 2019. The report demonstrated that the Committee was working effectively and providing independent assessment of the Council's governance arrangements.

A query was raised regarding the appropriateness of the inclusion within the Annual Report of historic comments dating as far back as 2006. Although it was acknowledged that this provided important context which may be of value within the covering report to the Audit Committee, it was suggested that, in future years, details relating only to the previous two to three years be included within the Annual Report itself.

RESOLVED – That the Chair of the Audit Committee's Annual Report 2018/19 be approved for submission to Council on 21 May 2019.

AUD/50 REVIEW OF PERFORMANCE MANAGEMENT FRAMEWORK AND RISK MANAGEMENT PROCESS

The Performance and Risk Officer reported that the Council had an existing Performance Management Framework and Risk Management Process which were reviewed annually. The Council Plan adopted by Full Council on 26 February 2019 had been taken into consideration as part of the annual review of the documents.

The Performance Management Framework described how the Council monitored its performance and reflected the performance monitoring structures and schedules. There had been changes to the Council Plan that had required updates to the Performance Management Framework. These changes were the Council Plan's updated priorities and values.

The Risk Management Process described how the Council identified and managed operational strategic level risks. There had been no changes required for risk management processes and there were, therefore, no changes for the Risk Management Process for 2019.

RESOLVED – That the following be noted:-

- (1) the Performance Management Framework April 2019/20, as set out at Appendix 1 to the report; and
- (2) the Risk Management Process March 2019/20, as set out at Appendix 2 to the report.

AUD/51 RISK MANAGEMENT - OPERATIONAL RISKS

The Performance and Risk Officer reminded the Committee that Internal Audit had recommended that the operational risks which were above the tolerance level should be reported to the Audit Committee, on an annual basis as a minimum, to ensure that Members were aware of the operational risks which had been identified and that they were being managed. He provided information with regard to the operational risks that were above tolerance, together with details on the mitigations to manage them, as shown at Appendix 1 to the report.

Further to AUD/30 (2018/19) and a request by the Committee for a review of Strategic Risk 5 “Impact of the Welfare Reform on Communities,” Appendix 2 to the report provided details of the completed review and set out the Council’s mitigations to reduce poverty and alleviate against Universal Credit impacts.

In addition, the Performance and Risk Officer pointed out that the Strategic Risk Register was also reported to Audit Committee every six months and that it was currently reviewed by the Senior Management Team prior to being reported each quarter as part of the quarterly performance monitoring and reporting arrangements.

Reference was made to Risk No.4, Windermere Lake encroachment debt recovery does not significantly reduce the amounts outstanding, and concern raised around forthcoming changes in personnel within the Legal Team and the potential for the loss of experience in this area, South Lakeland being the only Council which owned the bed of a lake. The Solicitor to the Council, in response, drew attention to the significant improvements which had been made by the Legal Team in recovering the outstanding debts over a number of years, this work having been carried out by a number of different solicitors. She did not anticipate any issues and pointed out that the Solicitor (Property and Contracts) who would be remaining in the Legal Team had experience of dealing with some Lake matters. She also explained that interim arrangements were being made with regard to the vacant post of Legal, Governance/Democracy Lead Specialist (Monitoring Officer) and that there would be a handover period during which this area of work would be addressed. A conservative approach had, however, been taken with regard to the potential for risk in the short-term.

RESOLVED – That the following be noted:-

- (1) the operational risks which are positioned above the line of tolerance and the mitigations to manage them, as listed in Appendix 1 to the report; and
- (2) the reviewed Strategic Risk 5 “Impact of the Welfare Reform on Communities” as set out in Appendix 2 to the report.

AUD/52 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 March 2019. The report also included details of emerging national issues and developments that might be relevant to the Council.

Discussion took place in relation to Grant Thornton's new Financial Foresight platform which had been made available to assist local councils with regard to financial sustainability using a combination of data, statistics and the company's expertise. Concern was raised around the potential pressures placed on Section 151 Officers and the need for their protection to ensure that they were able to provide realistic opinions when setting budgets. The Finance Lead Specialist (Section 151 Officer) explained that there was a framework in place and that councils were expected to follow regulations and Section 151 Officers to have regard to CIPFA requirements, best practice and ensure that their judgements were correct. She highlighted the importance of ensuring that the basic fundamentals around data and recording were accurate. She further informed Members that guidance was clear with regard to the Section 151 Officer having unfettered access to the Chief Executive and Members; if she had concerns, she was thus able to raise them, and also through Internal and External Audit. The Solicitor to the Council added that South Lakeland District Council had a number of policies and protocols in place to protect statutory officers from undue pressure by Members and drew attention to the “golden triangle” formed by the Head of Paid Service, the Monitoring Officer and the Section 151 Officer; the responsibilities of the statutory officers at South Lakeland District Council were very clear. The Director of Strategy, Innovation and Resources assured Members of continued commitment to maintaining this relationship and trust moving forward.

RESOLVED – That the progress made by External Auditors as of March 2019 be noted.

AUD/53 CERTIFICATION WORK FOR SOUTH LAKELAND DISTRICT COUNCIL FOR YEAR ENDED 31 MARCH 2018

The External Audit Manager presented a letter from Grant Thornton on certification work carried out for South Lakeland District Council for year ended 31 March 2018. External Audit had certified the Council's Housing Benefit subsidy claim for the financial year 2017/18 relating to subsidy claimed of £17.0m, details of which were set out in Appendix A to the letter.

External Audit had identified a number of errors in the initial testing from its certification work, which were highlighted in Appendix A, along with the follow up issues from 2016/17. The claim form had been amended for the majority of the errors identified, however, a qualification letter had been required to report the testing errors in Rent Allowances to the Department of Works and Pensions (DWP), including an extrapolation table of the potential errors. It was pointed out that the DWP may require the Council to undertake further work or provide assurances on the errors identified.

The indicative fee for 2017/18 for the Council was based on the final 2015/16 certification fees, reflecting the amount of work required by the Auditor to certify the Housing Benefit subsidy claim that year. The indicative scale fee set by Public Sector Audit Appointments Ltd (PSAA) for the Council for 2017/18 had been £7,552. The Council had requested that External Audit complete the additional testing this year on its behalf, which had led to additional fees of £3,500 being agreed with the Council, resulting in a total fee of £11,052. This would be revisited if the DWP required additional work in any areas noted in the qualification letter. Details of the fee were set out in more detail in Appendix B to the letter.

RESOLVED – That the letter from External Audit on certification work carried out for South Lakeland District Council for year ended 31 March 2018 be received.

AUD/54 EXTERNAL AUDIT PLAN FOR SOUTH LAKELAND DISTRICT COUNCIL YEAR ENDING 31 MARCH 2019

The External Audit Manager presented the External Audit Plan for the Council for the year ended 31 March 2019. The Plan set out an overview of the planned scope and timing of the statutory audit of the Council for those charged with governance.

The document aimed to assist the Committee in understanding the consequences of External Audit's work, discuss issues of risk and the concept of materiality and identify those areas of work External Audit would undertake during the year.

RESOLVED – That the External Audit Plan for South Lakeland District Council year ended 31 March 2019 be noted.

AUD/55 INTERNAL AUDIT PROGRESS REPORT 2018/19

Peter Harrison, Internal Audit, introduced the Internal Audit Progress Report 2018/19. Appendix 1 of the report provided a summary of the progress against the Internal Audit Annual Plan as at 25 March 2019.

The Internal Audit Manager presented executive summaries relating to seven audit reports which had been completed in the period, as set out in Appendix 2 to the report. All seven of the audit reports had resulted in reasonable assurance assessments and there had been no urgent action points identified within any of the reviews.

Three important action points had been identified in the Review of Use of Agency, Interim and Casual Workers. The need for the Director of Strategy, Innovation and Resources to focus on this area moving forward with the Customer Connect Programme was raised.

One important and one operational action points had been identified in the Review of Health and Safety – Property Risks. It had been identified that the Council did not have current contracts in place for some of its property routine service work. A review of contract management would, therefore, be carried out as a specific piece of work to ensure that contracts were in place moving forward.

Six important, two routine and three operational action points had been identified in the Review of Cyber Security. The important action points related to the contract framework and to policies and procedures in relation to this area. It was further pointed out that a recent Local Government Association cyber security stocktake had also raised a number of recommendations. Concern was raised with regard to the implementation dates for the recommendations which were felt to be somewhat far ahead. Bearing in mind the importance of the issue, it was felt that progress could be made sooner in some areas and the Chairman, therefore, asked for a further report on Cyber Security to be brought to the next meeting of the Committee in July 2019.

Reasonable assurance had been provided regarding the Review of Customer Connect as, despite there being no recommendations in regard to the current approach, there had been some slippage regarding timescales and budgets. Given the flexible nature of the project methodology, an opinion regarding the operation of the project management control framework during future phases of the Programme could not be offered.

Two important and one routine action point had been identified in the Review of Homelessness due to the Homelessness Strategy being out of date and the need to ensure that the working relationship with Cumbria County Council relating to service provision was documented and agreed or clear evidence that protocols were being advanced was provided.

Three important, nine routine and one operational action points had been identified in the Review of Information Governance. In response to a query, Members were advised that the General Data Protection Regulation had been applicable from 25 May 2018. On the whole, other authorities had progressed similarly to South Lakeland, although some were way behind, not having appreciated the importance of meeting the Regulation or the amount of work required. The Chairman asked for a further report to be brought to the next meeting of the Committee in July 2019 in order to ensure that the recommendation implementation timetable was met.

One important, two routine and one operational action points had been identified in the Review of Housing Benefit. The Finance Lead Specialist (Section 151 Officer) provided clarification with regard to the important action point, which was that amounts to be written off individual debtor accounts that were in excess of £20,000, regardless of the reason, be approved in line with the requirements of the Financial Procedure Rules. She explained that the incident referred to where the write-off of an amount in excess of £20,000 had been approved by the Chief Finance Officer, had been as a result of a misunderstanding. This had been picked up and designated as a DWP Official Error and she informed the Committee that officers would ensure that write-offs would be treated correctly moving forward. In response to a query with regard to the action implementation deadline of 31 December 2019, the Finance Lead Specialist (Section 151 Officer) explained that the consequential changes to the Council's Constitution would be brought to the Audit Committee in December 2019. In the meantime, work would be carried out in accordance with the rules of the current Constitution.

Internal Audit had also assessed the extent to which previous internal audit recommendations had been implemented. The report showed that 14 recommendations were yet to be implemented. Three were on target and there were 11 in progress where the original target dates had not been met. Five recommendations had been implemented and were now considered closed. Concern was raised with regard to the outstanding recommendations relating to Bereavement Services. The Director of Policy and Resources (Monitoring Officer) advised that some of the issues would be addressed within the new Parks and Open Spaces Strategy, the draft of which was due to be considered by the Overview and Scrutiny Committee on 26 April 2019. In addition, the Director of Strategy, Innovation and Resources informed Members that Bereavement Services, as a fully customer focussing service, would be dealt with as part of Phase 2 of the Customer Connect Programme and that the appropriate experience and knowledge would be in place in order to deliver the service. The Director of Policy and Resources (Monitoring Officer) having further indicated that the Parks and Open Spaces Strategy would be considered by Cabinet in June 2019, the Chairman suggested that the revised due date for implementation of the recommendations relating to Bereavement Services should be altered to 30 June 2019.

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 audit reports, as set out in Appendix 2 to the report; and
- (3) the progress achieved in implementing recommendations from previous internal audit reports, as set out in Appendix 3 to the report.

AUD/56 INTERNAL AUDIT ANNUAL REPORT 2018/19

The Internal Audit Manager, introduced the 2018/19 Internal Audit Annual Report. The report provided a summary of the outcomes of the work of the Internal Audit and included the Head of Internal Audit's opinion on the effectiveness of the Council's arrangements for risk management, governance and internal control in accordance with requirements of the Public Sector Internal Audit Standards (PSIAS).

A query was raised with regard to the fact that two out of 12 of the final audit reports had not been finalised within 10 days of receipt of management comments and as to what steps were being taken to ensure that deadlines were being met. The Internal Audit Manager, undertaking to endeavour to meet deadlines, assured Members that there had been no significant delays, but that these were highlighted to Committee as necessary.

RESOLVED – That the following be noted:-

- (1) the Head of Internal Audit's opinion of reasonable assurance on the Council's overall systems of governance, risk management and internal control for the year ended 31 March 2019, as set out in Appendix 1 to the report;
- (2) the progress achieved in 2018/19 in delivering the Audit Plan and the outcomes of completed audit reviews, as set out Appendix 1 to the report;
- (3) the Head of Internal Audit's declaration of Internal Audit independence, as required by the mandatory PSIAS; and
- (4) the Head of Internal Audit's declaration of conformance with the mandatory PSIAS.

AUD/57 INTERNAL AUDIT ANNUAL PLAN 2019/20

Members gave consideration to a proposed Internal Audit Annual Plan for 2018/19, presented by the Internal Audit Manager.

The Accounts and Audit Regulations required the Council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control. Proper Practices were now defined within the Public Sector Internal Audit Standards (PSIAS) which had become mandatory for all UK public sector internal auditors from 1 April 2013. The PSIAS affirmed the need for annual risk based audit plans to be developed in order that the Head of Internal Audit could form an annual opinion on the Council's systems of risk management, governance and internal control.

The draft Internal Audit Annual Plan attached at Appendix 1 to the report had been prepared following review of corporate documents including the Council's Corporate Risk Register, corporate plans and recent internal audit coverage.

The Plan would be subject to regular review to ensure that it remained appropriate and any revision required would be considered and agreed by the Finance Lead Specialist (Section 151 Officer) and reported to the Audit Committee, including the need for any additional audit resources, if appropriate. Any request for significant consulting activity by Internal Audit would be considered for approval by the Audit Committee, in line with the requirements of the PSIAS.

The Internal Audit Manager pointed out that this would be another challenging year for local authorities in terms of income, obligations and also the pressures on service delivery. He drew particular attention to a number of key areas which would require consideration when planning internal audit coverage, as follows:-

- Brexit – The Business Plan and Risk Register needed to be stress-tested against continuing uncertainty, which may have knock-on impacts on recruitment and retention of staff and on procurement and suppliers.
- Data Protection Act 2018 – This had a significant impact on how data was held and protected and could lead to an increase in access requests.
- Cybercrime – All the indications were that there would be continued and more sophisticated attempts to disrupt and deny services, often for no clear motive.
- Property Compliance – An increased focus following Grenfell and other incidents required effective processes and controls over legislative compliance relating to water hygiene, gas safety, fire risk assessments, asbestos management and electrical safety.
- SLDC continued to implement its Customer Connect programme, one element of which was a fundamental reorganisation of the staffing structure to achieve savings and deliver services more effectively.

RESOLVED – That the Internal Audit Annual Plan 2019/20, as attached at Appendix 1 to the report, be approved.

AUD/58 OTHER SIGNIFICANT FINANCIAL ISSUES

The Finance Lead Specialist (Section 151 Officer) informed the Committee that a watching brief was being kept with regard to the potential impact of Brexit and that year end closure of the accounts was progressing. She drew attention to CIPFA's new financial resilience index and advised that a report would be brought before the Committee on how the Council would meet CIPFA's new draft financial management code which had been produced in conjunction with the index. She finally drew Members' attention to an area of fraud which had been escalated and which had become a national issue.

RESOLVED – That the verbal update be noted.

AUD/59 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/60 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 Projects and Innovation Officer, acting as Customer Connect Programme Officer, presented an update report on the management of the Customer Connect Programme and, specifically, the Programme's risks and programme spend against budget. She presented a live version of the risk register which contained the most up to date information.

The Performance, Innovation and Commissioning Lead Specialist, acting as Customer Connect Programme Manager, and the Director of Strategy, Innovation and Resources 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/61 RE-ADMISSION OF PRESS AND PUBLIC

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

The meeting ended at 7.40 p.m.