

AUDIT COMMITTEE

Minutes of the proceedings at a meeting of the Audit Committee held in the Georgian Room, Kendal Town Hall, on Thursday, 5 December 2019, at 6.30 p.m.

Present

Councillors

Stephen Coleman (Chairman)
Tracy Coward (Vice-Chairman)

Philip Dixon

John Holmes

Kevin Holmes

Apologies for absence were received from Councillors Kevin Lancaster and Matt Severn.

Officers

Courage Aiguobasimwin	Trainee Solicitor
Sarah Berry	Performance, Innovation and Commissioning Specialist
Inge Booth	Legal, Governance and Democracy Specialist
Linda Fisher	Legal, Governance and Democracy Lead Specialist (Monitoring Officer)
Claire Gould	Performance, Innovation and Commissioning Lead Specialist
Julia Krier	Legal, Governance and Democracy Specialist
Helen Smith	Finance Lead Specialist (Section 151 Officer)
David Sykes	Director of Strategy, Innovation and Resources

Also in attendance were Peter Harrison, Internal Audit, and Gareth Kelly and Pamela Swallowe, External Audit.

AUD/30 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 2019.

AUD/31 DECLARATIONS OF INTEREST

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

AUD/32 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/33 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/34 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 Performance, Innovation and Commissioning Specialist, 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 Customer Connect Programme Officer and the Finance Lead Specialist (Section 151 Officer) 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; and

- (2) the monthly Programme Overview of Spend against the approved budget at Appendix 2 to the report.

AUD/35 RE-ADMISSION OF PRESS AND PUBLIC

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

AUD/36 AUDIT COMMITTEE 2019/20 WORK PROGRAMME

RESOLVED – That progress against the Audit Committee's 2019/20 Work Programme be noted.

AUD/37 EXTERNAL AUDITOR'S PROGRESS REPORT AND UPDATE

Gareth Kelly and Pamela Swallowe, External Audit, presented a report providing the Committee with a summary of the progress made by Grant Thornton in delivering their responsibilities, in line with the standard timetable, as at November 2019.

Members were informed that the certification work for the Council's 2018/19 Housing Benefit Subsidy claim had been completed in the previous week and that the outcome would be reported to the next meeting of the Committee. Attention was also drawn to the need for a small increase in Audit Fees for 2019/20 due to the need for additional audit work as a result of the Financial Reporting Council's expectations as well as External Audit's work in the Local Government section in 2018/19 having identified areas where financial reporting required improvement. Public Sector Audit Appointments Limited, who had originally awarded the contracts for External Audit, would also be communicating with the Council in this regard.

The report also included details of emerging national issues and developments that might be relevant to the Council. Particular reference was made to the ongoing Redmond Review being carried out on behalf of the Government into the quality of local authority financial reporting and external audit. Grant Thornton, as the largest supplier of audit services in Local Government and the National Health Service, had submitted a detailed response to the review. Attention was also drawn to the National Audit Office consultation on the New Code of Audit Practice from 2020, the most significant change being in relation to the Value for Money arrangements which would, from 2020/21, require auditors to issue a commentary on each of the criteria rather than delivering an overall, binary, conclusion.

RESOLVED – That the progress made by External Audit as at November 2019 be noted.

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INTERNAL AUDIT PROGRESS REPORT 2019/20

Peter Harrison, Internal Audit, introduced the Internal Audit Progress Report 2019/20. The report provided a summary of the progress against the Internal Audit Annual Plan as at December 2019.

Following the Internal Audit Plan's approval by the Committee in April 2018, four assurance reviews had been finalised, with site work having commenced on one further review. Mr Harrison acknowledged slippage in the Plan and referred to the previous meeting of the Audit Committee when Members had been advised of resource implications within the Internal Audit Team. This situation remained ongoing, however, Mr Harrison, assured Members that the remaining reviews would be carried out within the financial year.

The report contained the executive summary of the one audit report completed in the period: Assurance Review of Risk Management. This high-level review had considered the arrangements in place for the identification and management of risks, including the identification of controls and actions designed to mitigate risk. The review had resulted in an assessment of reasonable assurance, with five important and two routine action points having been identified. In response to a query regarding the small amount of risks identified on the Operational Risk Register, Mr Harrison explained that, although formal benchmarking was not carried out with other authorities, his personal experience meant that he was aware that South Lakeland's number was low in comparison to others. He suggested that Internal Audit would expect to see more risks for each operational area, however, stressed that this should not be turned into a major industry, particularly with the recent changes in officer roles and responsibilities. Concern having been expressed at the five important action points, the Director of Strategy, Innovation and Resources explained that this was a fair audit. He recognised the small number of identified risks in service plans and that they needed to be revisited. He suggested the need to look at training for staff in relation to fraud risk and also informed of improvements which had already been made in identification of risks, for example the approach taken in the Customer Connect Programme. He added that service plans were due to be revamped as a result of the new operating arrangements. The Director of Strategy, Innovation and Resources accepted the findings of the report and advised that the actions would be taken forward.

Internal Audit had also assessed the extent to which previous internal audit recommendations had been implemented. The report showed that 17 recommendations were yet to be implemented. Five were on target and there were 12 in progress where the original target dates had not been met. 21 recommendations had been implemented and were now considered closed. The Director of Strategy, Innovation and Resources acknowledged the outstanding actions, pointing out that some relating to technology were reliant on the installation of new systems. In response to a request from the Chairman, he undertook to arrange for a full report on action being taken in relation to outstanding recommendations to be brought to the next meeting of the Committee.

RESOLVED – That the following be noted:-

- (1) the progress achieved in 2019/20 in delivering the Audit Plan and the outcomes of completed audit reviews, as set out in Appendix 1 to the report;
- (2) the 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/39 ACCOUNTING POLICIES 2019/20

The Finance Lead Specialist (Section 151 Officer) presented a report outlining proposed accounting policies to be adopted for the 2019/20 financial year and to be used in the preparation of the Statement of Accounts for the financial year ending 31 March 2020. These had been prepared in line with the Chartered Institute of Public Finance and Accounting's (CIPFA) Code of Practice on Local Authority Accounting in the UK 2019/20 (the Code). Adopting the proposed policies would support timely production of a high quality set of annual accounts.

The 2019/20 CIPFA Code of practice on Local Authority Accounting had only minor changes compared to 2018/19, none of which were judged to be material for the Council. However, the opportunity had been taken to update the policies to make the accounts more understandable by users. With this in mind, the policies had also been re-ordered to bring them more in line with the order of the notes to the accounts. The proposed account policies were attached at Appendix 1 to the report and did not depart from the provisions of the 2019/20 Code.

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 accounts to the new timetable.

The report drew attention to the fact that, during the year-end process, there might be changes required to the policies arising from changes in circumstances or updated guidance. These would be agreed with the Section 151 Officer and reported to Audit Committee alongside the final Statement of Accounts.

RESOLVED – That the accounting policies, as set out at Appendix 1 to the report, for the 2019/20 financial year and to be used in the preparation of the Statement of Accounts for the financial year ending 31 March 2020, be approved.

AUD/40 RISK MANAGEMENT UPDATE

The Finance Lead Specialist (Section 151) presented the Strategic Risk Register (Quarter 3) 2019/20 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 the Corporate Management Team each quarter as part of the Council's quarterly performance monitoring and reporting arrangements and that review had informed this report.

The report indicated that over 66% of the Strategic Risks were positioned below the level of risk tolerance which demonstrated the effective mitigation and regular review of the risks.

The Finance Lead Specialist (Section 151 Officer), in response to a query, listed those Strategic Risks which remained above the level of tolerance:-

- Risk 6 – Medium Term Financial Planning – delivery of a balanced budget;
- Risk 14 – Unintended impacts of efficiencies and service changes;
- Risk 15 – Customer Connect Programme;
- Risk 20 – Capacity for Business as Usual during the transition to the new organisational model; and
- Risk 21 – Accountable Body for large value schemes.

She explained that work continued in relation to these areas but that the positions of the risks had not yet moved.

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

AUD/41 AUDIT COMMITTEE RISK REGISTER

The updated Audit Committee Risk Register was presented by the Finance Lead Specialist (Section 151 Officer). The Risk Register had last been reviewed by the Committee on 25 July 2019 and the recommendations from that meeting had been included within the update.

The Finance Lead Specialist (Section 151 Officer) was proposing that Risk AC 1 (the challenge from the Committee is limited due to inexperience) be reduced back to Very Low following completion of induction training by all Members of the Committee. She explained that the likelihood of Risk AC 2 (the ability of the Council to carry out its statutory requirements effectively due to limited resources as a result of the level of funding of local government) had been reduced to reflect the Council's robust financial planning process, including the identification and delivery of savings. However, risks remained, as the current financial situation was still uncertain. Risk AC 3 (regarding the statutory timetable for final accounts reporting from the 2017/18 accounts being a month earlier) had been archived following the Council having met the deadlines for two financial years.

In response to a suggestion, the Finance Lead Specialist undertook to allocate unique numbers to each risk in order to avoid confusion.

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

AUD/42 REVIEW OF LOCAL CODE OF GOVERNANCE

The review of the Local Code of Governance was presented by the Finance Lead Specialist (Section 151 Officer).

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's (CIPFA's) governance framework for local authorities constituted proper practice and was to be applied for financial years from 1 April 2016 onwards.

The Local Code approved in December 2018 and Annual Governance Statement (AGS) had been prepared under the new framework and had included recommendations from the Council's Internal Auditors review of the Local Code in 2017/18. No substantive changes to the Local Code approved in December 2018 were proposed, other than formatting to remove the indicator where additional measures had been added in December 2018. The table showing the Internal Control Environment had been removed to a separate appendix to the report (Appendix 2), as this supported the Local Code rather than forming part of the Local Code. Appendix 3 to the report showed the CIPFA principles, sub-principles, example behaviours and actions that demonstrated 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 2018/19 AGS. This had been presented to Audit Committee on 9 April 2019. Appendix 4 provided an update on progress against the various actions.

Gareth Kelly, External Audit, commended South Lakeland District Council's very comprehensive set of governance arrangements.

RESOLVED – That the following be noted:-

- (1) the review of the Local Code of Governance, as at Appendix 1 to the report; and
- (2) progress in implementing the Annual Governance Statement Action Plan, as at Appendix 4 to the report.

AUD/43

REVIEW OF CONSTITUTION

The Audit Committee's Contribution to the Review of the Constitution was presented by the Finance Lead Specialist (Section 151 Officer). 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 to paragraph 30 (Insurances) of the Finance Procedure Rules, as highlighted within Appendix 1 to the report.

As part of the implementation of Customer Connect, all staff and teams would be encouraged to identify areas where the Constitution could be improved to increase understanding or to improve processes. The service redesign process would also contribute to potential changes in the Constitution. These proposals would be reported to Audit Committee as they occurred. The Monitoring Officer had requested proposed amendments to the Constitution from all services, and would include an external review of the Constitution.

The Legal, Governance and Democracy Lead Specialist (Monitoring Officer) added that the Constitution was a living document and that the Legal Team would also be carrying out an independent review of the document in order to find ways in which to streamline delegations and processes whilst ensuring that the Council was complying with legislative requirements.

RESOLVED – That the proposals for amendments to the Constitution, as set out within Appendix 1 to the report, be recommended to Council for approval.

AUD/44 REVIEW OF WHISTLEBLOWING

A report on the findings of the review of the Council's whistleblowing arrangements was presented by the Finance Lead Specialist (Section 151 Officer).

The Whistleblowing Policy had last been revised by Human Resources Committee in July 2013 and was attached at Appendix 1 to the report. No amendments had been made since the last review, except to update details such as the telephone number of the whistleblowing hotline and the internal audit contractor. The Policy was due to be refreshed by the Human Resources Lead Specialist alongside updating other Human Resources policies and would be considered by the Joint Consultative Panel and Human Resources Committee.

In February 2013, Public Concern at Work had set up a Commission to focus on workplace whistleblowing. The Whistleblowing Commission had published a report in November 2013 which had recommended a Code of Practice for effective whistleblowing arrangements which could be rooted in statute and taken into account in court cases and by regulators. The Council's current policy incorporated the main requirements of the Code of Practice. Public Concern at Work was now called Protect, and the refresh of the HR Policy would be based on the latest best practice from that organisation. The review of this Policy demonstrated that the Council took the matter very seriously and was genuinely committed to providing an environment of openness where individuals felt that they were able to raise genuine concerns without fear of future reprisal or detriment.

Whilst whistleblowing protection applied only to employees, the Council encouraged others to raise concerns about potential wrongdoing, including employees of the Council's contracts and members of the public. The Council's Whistleblowing Policy was published on the intranet and the Council's website. A review of the website would be carried out during the next six months to ensure it was clear and comprehensive. The Policy was also forwarded to the Council's principal contractors who undertook services on behalf of the Council. The Policy was also referred to in the induction process for new staff entrants.

One issue, concerning health and safety arrangements, had been raised under the whistleblowing procedure since it had last been reviewed by the Committee in September 2017. A full investigation had been carried out and improvements made to staff facilities.

Discussion took place on staff confidence levels around reporting incidents and awareness of the Whistleblowing Policy. The Legal, Governance and Democracy Specialist (Monitoring Officer) advised that this issue had not formed part of the recent staff review, however, suggested that, now that the new structure was in place, an appropriate message should be communicated and training provided. The Director of Strategy, Innovation and Resources explained that the Authority's overall approach was to encourage a just culture and instil confidence in staff and that whistleblowing formed part of a wide range of work being carried out in this regard. He undertook to ensure that a question around staff confidence in relation to whistleblowing formed part of the next staff survey. Gareth Kelly, External Audit, recommended that the Council should make contact with colleagues in the local National Health Trust, as the National Health Service had excellent procedures in this regard. The Chairman raised the potential for testing Whistleblowing procedures.

RESOLVED – That the following be noted:-

- (1) the actions taken following the whistleblowing case outlined above; and
- (2) the proposals for revising the whistleblowing arrangements.

AUD/45 REVIEW OF EFFECTIVENESS OF AUDIT COMMITTEE

The Finance Lead Specialist (Section 151 Officer) 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).

The conclusion of the review 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 3 to the report included a skills framework produced by CIPFA.

Members were reminded that the Committee had, at its meeting in December 2018, given consideration to whether or not to seek an independent member, however, had concluded that this was not necessary.

CIPFA's Practical Guidance also included possible wider functions for audit committees:-

- 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.

The 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 would be considered on a case-by-case basis, bearing in mind the need to maintain the independence of the Audit Committee.

RESOLVED – That

- (1) the review, and its conclusion that the Audit Committee is operating effectively in all material aspects, be approved; and
- (2) the skills framework for members of the Audit Committee, as at Appendix 3 to the report, be noted.

AUD/46 OTHER SIGNIFICANT FINANCIAL ISSUES

The Finance Lead Specialist (Section 151 Officer) updated Members on the Redmond Review, explaining that the closing date for responses had been put back to 20 December 2019 due to the forthcoming Parliamentary Elections. She undertook to prepare the draft response, as outlined at the previous meeting, and to circulate it to Committee Members prior to onward submission.

The Finance Lead Specialist (Section 151 Officer) also referred to the uncertainties in relation to the Local Government Finance Settlement and the announcement which was now not expected until 19 December 2019 at the earliest.

RESOLVED – That the verbal update be noted.

The meeting ended at 7.30 p.m.