

AUDIT COMMITTEE

6.10 P.M.

20TH FEBRUARY 2019

PRESENT:- Councillors Abbott Bryning (Chairman), Colin Hartley (Vice-Chairman), Nathan Burns, Oliver Robinson, Malcolm Thomas and Nicholas Wilkinson

Officers in attendance:

Joanne Billington	Internal Audit and Assurance Manager
Paul Thompson	Accountancy Manager / Section 151 Officer
Dawn Allen	Auditor
Sarah Moorghen	Democratic Support Officer

Also in attendance:

Paul Hewitson	Director at Deloitte LLP
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22 MINUTES

The minutes of the meeting held on 28th November 2018 were signed by the Chairman as a correct record.

23 ITEMS OF URGENT BUSINESS AUTHORISED BY THE CHAIRMAN

The Chairman reported that he had accepted two items of urgent business which required consideration prior to the next Committee. The first related to the Draft Strategic Risk Register (Minute 25 refers.) and the second was a report on Accounting Policies used in the Preparation of the Statement of Accounts (Minute 24 refers.).

24 ITEM OF URGENT BUSINESS - ACCOUNTING POLICIES USED IN THE PREPARATION OF THE STATEMENT OF ACCOUNTS

In accordance with S100B (4) of the Local Government Act 1972, the Chairman requested that the Committee give consideration to an item of urgent business regarding a report on Accounting Policies used in the Preparation of the Statement of Accounts. The Chairman had accepted this as an item of urgent business as approval of the accounting policies was required prior to the next meeting of the Committee.

The Deputy Section 151 Officer presented the report.

It was reported that accountancy policies were the specific principals, conventions, rules and practices applied by the Council in preparing and presenting its financial statements. The Statement should contain only policies that were relevant to the circumstances of the Council and which addressed material transactions. They should be subject to annual review and agreement by those charged with governance.

The Committee was advised that The Chartered Institute of Public Finance and

Accountancy (CIPFA) Code of Practice on Local Authority Accounting (the Code) had adopted International Financial Reporting Standard (IFRS) 15 – 'Revenue from contracts with customers' and IFRS 9 – 'Financial instruments' with effect from 2018/19. The Council's accounting policies had therefore been amended to reflect these changes to the Code and also the materiality of its transactions.

A copy of the amended accounting policies was attached as Appendix 1 to the report.

Members asked questions regarding the changes and the impact of changes to the policies and were advised that they were mainly technical changes which would have limited impact.

It was proposed by Councillor Colin Hartley and seconded by Councillor Oliver Robinson:

"That the recommendation set out in the report be approved."

Upon being put to the vote, Members voted unanimously in favour of the proposition, whereupon the Chairman declared the proposal to be carried.

Resolved:

That the accounting policies, as set out in Appendix 1 of the report, incorporating the identified changes, be approved.

25 ITEM OF URGENT BUSINESS - DRAFT STRATEGIC RISK REGISTER

In accordance with S100B (4) of the Local Government Act 1972, the Chairman requested that the Committee give consideration to an item of urgent business regarding a report on the Draft Strategic Risk Register. The Chairman had accepted this as an item of urgent business as consideration was required prior to the next meeting of the Committee.

The Internal Audit and Assurance Manager (IAAM) presented an update to Members on the progress made in implementing a strategic risk register.

It was reported that it in accordance with the Committee's Terms of Reference, the Audit Committee were responsible for monitoring the effective development and operation of risk management in the Council and monitoring progress in addressing risk related issues.

Members considered the draft strategic risk register and discussed the Committee's role in challenging the content of the Register. Members noted that the Risk Register was currently draft and further work was required to ensure mitigating actions were in place against each risk. The IAAM also made reference to the External Auditors Planning Report (minute 31 refers) where risk management had been highlighted as requiring additional work. The IAAM informed the Committee that the observations made in the report will be used to implement an action plan to assist the Council strengthen risk management across the organisation.

Resolved:

That the draft strategic risk register be noted.

26 DECLARATIONS OF INTEREST

There were no declarations of interest.

27 AUDIT COMMITTEE TERMS OF REFERENCE

The Committee received the report of the IAAM which sought a revision to the Terms of Reference (TOR) for the Audit Committee.

It was reported that in March 2018, CIPFA had re-issued their practical guidance for Audit Committees and provided Local Authorities with a suggested TOR setting out the purpose and the core functions required.

Members were advised that since its last review in February 2018, whilst no further responsibilities had been assigned to the Committee, a significant number of changes had been made to the TOR to ensure that it accurately reflected the work of the Committee and that it took into consideration the suggested TOR recommended by CIPFA. In particular, the requirement for the TOR to have a 'statement of purpose' which included the Committees core purpose.

A copy of the amended TOR was attached as Appendix A to the report for consideration.

The IAAM informed the Committee that as it was the last meeting in the municipal year and that May's Election could see a different membership at its next meeting, she did not intend going through the TOR in any detail. However, full training on the TOR would be given once the new Committee had been appointed.

The Committee were advised that the Constitutional Working Group had suggested an amendment to the Composition paragraph of the TOR. The Group agreed to incorporate this amendment and for the revised TOR to be referred to the Constitutional Working Group for inclusion in the revised Constitution for approval at full Council.

The External Auditor also advised the Committee that the TOR should include a term requiring the Committee to satisfy themselves of the independence of the External Auditor.

It was proposed by Councillor Malcolm Thomas and seconded by Councillor Nick Wilkinson:

"(1) That the proposed revision of the Audit Committee's TOR be accepted by the Committee along with the following revisions;

- a) That the composition of the Committee be amended to the wording previously agreed by the Constitutional Working Group;

"7 Councillors in political balance. Chair to be appointed by Council annually.

The Chair and Vice Chair must not be a Member of the Cabinet or Overview

and Scrutiny.

The Committee has the right of access to all the information it considers necessary in connection with the work of the Committee and may consult directly with Internal and External Auditors.”

- b) Inclusion of a Term requiring the Committee to satisfy themselves of the independence of the External Auditors.
- (2) That the revised TOR be reported to the Constitutional Working Group for inclusion within the amended Constitution and approval at Full Council.”

Upon being put to the vote, Members voted unanimously in favour of the proposition, whereupon the Chairman declared the proposal to be carried.

Resolved:

That the proposed revision of the Audit Committee’s TOR be accepted by the Committee and that the revised TOR be reported to the Constitutional Working Group for inclusion within the amended Constitution which will be approved at Full Council.

28 INTERNAL AUDIT CHARTER

The IAAM presented a report which sought approval for the annual review of the Internal Audit Charter.

Members were advised that in accordance with Internal Audit Standards, the Charter should be reviewed periodically. The last review was carried out on the 21 February 2018.

It was reported that only a few minor changes were needed to take into consideration that following a recent organisational restructure, ‘Management Team’ was now the ‘Executive Team’ and the IAAM now reported directly to the Council’s Section 151 Officer following the departure of the Council’s Chief Officer (Resources).

Members asked a number of questions relating to the Internal Audit Charter and agreed that the periodic review of the Charter should continue to take place annually.

It was proposed by Councillor Colin Hartley and seconded by Councillor Oliver Robinson:

“That the recommendation set out in the report be approved.”

Upon being put to the vote, Members voted unanimously in favour of the proposition, whereupon the Chairman declared the proposal to be carried.

Resolved:

That the Internal Audit Charter, submitted at Appendix A to the report be approved.

29 INTERNAL AUDIT STRATEGY AND RISK BASED PLAN 2019/20

The IAAM presented a report which sought the Committee's approval for the proposed Internal Audit Strategy and Annual Risk Based Plan for 2019/20.

It was reported that the Internal Audit Strategy was a high-level statement of how the Internal Audit Service would be delivered and developed in accordance with its internal Audit Charter and how it linked to the Council's organisational objectives and priorities.

A copy of the Audit Plan for 2019/20 was attached as Appendix B to the report. Members were advised that the audit plan looked different from previous years due to the removal of allocated days. The IAAM explained that this was to keep the audit plan flexible, recognising the imminent changes the council faces over the next 12 months but also acknowledging the reduced resources within the team.

It was reported that following the resignation of the Deputy IAAM in December 2018, and subject to Audit Committee approval, temporary arrangements had been provisionally made with Lancashire County Council to provide up to 50 audit days to assist in the delivery of the 2019/20 Audit Plan.

It was also reported that whilst the contract with Wyre Council for the post of the IAAM was due to cease on the 31 August 2019, a review of the Internal Audit Service was currently being undertaken by the Corporate Director of Resources, which if approved, would see the continuation of the current arrangements with Wyre Council.

The Committee asked a number of questions relating to the outsourcing of audit work to Lancashire County Council and the risks in relation to this. The Committee were advised that the risks were minimal. The Committee also asked questions around the current capacity within the audit team and if they were sufficient to deliver the audit plan. The IAAM advised the Committee that this would be kept under review and progress on implementing the plan reported to them on a regular basis

It was proposed by Councillor Malcolm Thomas and seconded by Councillor Oliver Robinson:

"That the recommendation set out in the report be approved."

Upon being put to the vote, Members voted unanimously in favour of the proposition, whereupon the Chairman declared the proposal to be carried.

Resolved:

- (1) That the Internal Audit Strategy and Risk Based Plan for 2019/20 be approved.
- (2) That the Audit Committee approve the appointment of Lancashire County Council Internal Audit Services for the delivery of up to 50 audit days to assist with the delivery of the 2019/20 Audit Plan.
- (3) That the Audit Committee note that a restructure was currently taking place, which would explore the possibility of extending the current arrangements with Wyre Council in relation to the post of the IAAM.

30 CERTIFICATION OF CLAIMS AND RETURNS 2017/18

The Deputy Section 151 Officer presented the annual report of the certification of claims and returns work undertaken in 2017/18 by KPMG.

It was reported that certification work had been carried out on two claims/returns to give assurance to funding bodies of the accuracy and validity of the Councils returns.

The Pooling of Housing Subsidy Benefit was certified as unqualified without amendment. A qualification had been necessary for the Housing Subsidy Benefit claim. No adjustment had been made for the errors identified.

Resolved:

That the Certification of Claims and Returns Annual Report 2017/18 be accepted.

31 EXTERNAL AUDIT PLANNING REPORT FOR YEAR ENDING 31 MARCH 2019

The Committee received the External Audit Planning Report for the year ending 31st March 2019 prepared by Deloitte, which outlined how Deloitte would deliver its financial statements audit work for the Authority.

Paul Hewitson, Director at Deloitte LLP, advised the Committee that Deloitte had completed the handover with KPMG, and had been working with officers to develop a plan in collaboration with the Council.

It was reported that the External Auditors had determined a materiality of £2.9million, based on 2% or gross and would report any misstatements above £145,000 to the Committee. Any misstatements below this threshold would be reported if they were considered material by their nature.

Members discussed the materiality and reporting thresholds and agreed that these were appropriate.

Members were advised on the significant risks which the External Audit would focus on during the Audit including the completeness and cut off of service line expenditure, property valuations and management override of controls as well as Value for Money and Risk Management.

Members asked a number of questions in relation to the External Audit Planning Report, the Risk Register and the role of the External Auditors including their relationships with Lancashire County Council and other close by Local Authorities.

Resolved:

That the External Audit Planning Report for year ending 31st March 2019 be accepted.

The Section 151 Officer and Paul Hewitson, Director of Deloitte LLP left the room at this point.

**32 PERIODIC DISCUSSION WITH THE INTERNAL AUDIT AND ASSURANCE
MANAGER**

Audit Committee Members were provided with an opportunity to speak to the Internal Audit and Assurance Manager in confidence.

Chairman

(The meeting ended at 8.45 p.m.)

**Any queries regarding these Minutes, please contact
Sarah Moorghen, Democratic Services - telephone 01524 582132, or email
smoorghen@lancaster.gov.uk**