

## AUDIT COMMITTEE

6.10 P.M.

28TH JUNE 2017

**PRESENT:-** Councillors Abbott Bryning (Chairman), Nathan Burns, Colin Hartley, Elizabeth Scott, Malcolm Thomas, David Whitaker and Nicholas Wilkinson

Officers in attendance:-

Nadine Muschamp	Chief Officer (Resources) and Section 151 Officer
Joanne Billington	Internal Audit & Assurance Manager
Sarah Moorghen	Democratic Support Officer

Also in attendance:-

Tim Cutler	Director KPMG LLP (UK)
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### 1 APPOINTMENT OF VICE-CHAIRMAN

The Chairman requested nominations for the position of Vice-Chairman of the Audit Committee for the municipal year 2017/8.

It was proposed by Councillor Whittaker and seconded by Councillor Scott:

“That Councillor Hartley be appointed Vice-Chairman of the Audit Committee for the municipal year 2017/18”

There being no further nominations, the Chairman declared the proposal to be carried.

***Resolved:***

That Councillor Hartley be appointed Vice-Chairman of the Audit Committee for the municipal year 2017/18.

### 2 MINUTES

That the minutes of the meeting held on 18<sup>th</sup> January 2017 were signed by the Chairman as a correct record.

### 3 ITEMS OF URGENT BUSINESS AUTHORISED BY THE CHAIRMAN

There were no items of urgent business.

### 4 DECLARATIONS OF INTEREST

There were no declarations of interest.

**5 EXTERNAL AUDIT PLAN 2016/17**

The Committee received the External Audit Plan 2016/17 prepared by KPMG, which outlined how KPMG would deliver its financial statements audit work for the Authority and set out their approach for value for money (VFM) work for 2016/17. The Plan supplemented the Audit Fee Letter 2016/17.

Tim Cutler, Partner KPMG LLP (UK) advised the Committee that KPMG had assessed the key risks affecting the Authority's financial statements and the central processes that would impact on the audit. Professional standards required two standard risks, in relation to management override of controls and fraudulent revenue recognition, to be considered as part of each authority's audit.

It was reported that the risk assessment was ongoing and KPMG would report on VFM significant risks during their audit.

Members were advised that KPMG's work would be completed in four phases from March to September 2017.

***Resolved:***

That the External Audit Plan 2016/17 be accepted.

**6 EXTERNAL AUDIT FEE 2017/18**

The Committee received KPMG's Annual Audit Fee Letter 2017/18 confirming the audit work and the fee that was proposed for the 2017/18 financial year.

Tim Cutler, Partner KPMG LLP (UK) advised that KPMG planned and delivered work to fulfil their responsibility under the Code of Audit Practice (the Code) issued by the National Audit Officer (NAO). Under the Code, KPMG had a responsibility to consider the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources and in order to do this KPMG would undertake the appropriate value for money (VFM) audit work.

It was reported that the planned audit and certification fee were based on a number of assumptions, as set out in Appendix 1 to the letter. Over the course of the audit, it was expected that reports would be issued relating to KPMG's work, details of which were set out in Appendix 2 to the letter.

***Resolved:***

That the Annual Audit Fee Letter 2017/18 be accepted.

***The Internal Audit and Assurance Manager left the room and did not participate in item 7.***

## 7 INTERNAL AUDIT MANAGEMENT - COLLABORATION WITH WYRE BOROUGH COUNCIL

The Chief Officer (Resources) presented a report on Internal Audit Management – Collaboration with Wyre Borough Council which sought endorsement to the arrangements regarding the Internal Audit and Assurance Manager (IAAM) role as a 12 month pilot.

It was reported that the Accounts and Audit Regulations 2015 required local government to have a “Head of Audit” role holding a professional qualification and being suitably qualified.

Members were advised that the departure of the former IAAM had unavoidably resulted in the loss of many years of knowledge and experience. Discussions had therefore taken place as to various options available and from these discussions a collaboration arrangement had been agreed, with Wyre Borough Council, as a pilot for 12 months, subject to the endorsement of the Committee.

It was reported that endorsing the proposals would ensure the Internal Audit Service continued to deliver an effective audit service which complied with the relevant professional standards. The proposals were designed to support the delivery of the Audit Plan. The interim IAAM would work with the Chief Officer (Resources) to embed a structure which would provide stability, increase resilience and retained its well-developed respect and standing throughout the organisation.

Members asked a number of questions relating to the collaboration with Wyre Borough Council regarding Information Governance, external auditors, the cost of the arrangements, and reports to the Audit Committee. Members also asked questions regarding succession planning and professional qualifications of existing audit staff, compliance with Regulations, the role of an apprentice and how the collaboration would be reviewed and reported back to the Committee.

It was proposed by Councillor Whittaker and seconded by Councillor Thomas:

“That the recommendations, as set out in the proposal, 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 Committee endorses the 12 month pilot collaboration arrangements with Wyre Borough Council, to cover the IAAM role and to develop the Internal Audit function and team as set out in the report.
- (2) That future proposals (beyond the pilot) be considered by the Committee in due course, and in the meantime the Committee be informed of any significant changes or developments as the pilot progresses.

## 8 ANNUAL REVIEW OF INTERNAL AUDIT'S COMPLIANCE WITH PROFESSIONAL STANDARDS

The Internal Audit and Assurance Manager (IAAM) presented the Annual Review of Internal Audit's Compliance with Professional Standards report to advise Members of the outcome from a self-assessment review against the Public Sector Internal Audit Standards (PSIAS) as a contribution to the annual review of Internal Audit effectiveness, and sought endorsement for an updated Quality Assurance and Improvement Programme.

It was reported that the Accounts and Audit Regulations 2015 include a requirement for local authorities Internal Audit functions to take into account PSIAS and any associated guidance.

The PSIAS require a 'Quality Assurance and Improvement Programme' (QAIP) to be maintained which included periodical internal and external assessment of compliance with the Standards. Furthermore, standard 1322 of the PSIAS required the Council to consider disclosing any significant deviations in its Annual Governance Statement.

Members were advised that an annual self-assessment had been undertaken in accordance with the QAIP. There were no areas where non-compliance had been identified and partial compliance was now demonstrated in 16 instances (previously 17). The IAAM reported that she would be focusing on working towards full compliance in 2017/18, however would be welcoming the independent peer review later in the year which would validate the self-assessment.

Lancaster's peer review is to be carried out in October / November 2017 by Wyre Borough Council and Allerdale Borough Council, however Members were advised that this would be reviewed in light of the collaborative agreement with Wyre Borough Council and the now shared IAAM

The IAAM answered a number of questions from Members relating to performance indicators and risk registers, external peer reviews and targets on areas of partial compliance.

It was proposed by Councillor Burns and seconded by Councillor Wilkinson:

"That the recommendations, as set out in the report, be approved."

Upon being put to the vote, 6 Members voted in favour of the proposition, with one abstention, whereupon the Chairman declared the proposal to be carried.

### **Resolved:**

- (1) That the IAAM conclusions from the self-assessment exercises be accepted as evidence that Internal Audit was operating effectively and the Committee could therefore place reliance on Internal Audit's reports and work when considering the overall effectiveness of the Council's governance arrangements. The areas of partial compliance and agreed action was presented at Appendix A to the report.
- (2) That the QAIP for 2017/18, presented at Appendix B to the report be noted and endorsed.

**9 INTERNAL AUDIT ANNUAL REPORT AND ASSURANCE STATEMENT 2016/17**

The Internal Audit and Assurance Manager (IAAM) presented the Internal Audit Annual Report and Assurance Statement 2016/17 to inform the Committee of the extent and outcome of Internal Audit work during the 2016/17 financial year and to present an annual Statement of Assurance regarding the Council's framework of governance, risk management and control.

A summary of the annual position against the 2016/17 Annual Plan was provided for Members consideration.

It was reported that the work of internal audit sought to provide assurance to the Council as to the appropriateness and effectiveness of its internal control and corporate governance arrangements. During the 2016/17 financial year, Internal Audit's work had provided reasonable assurance.

The IAAM answered a number of questions regarding safeguarding of adults, stores, and the teams risk based approach to audit work.

It was proposed by Councillor Whittaker and seconded by Councillor Scott:

"That the recommendations, as 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 clearly carried.

***Resolved:***

- (1) That the report be noted.
- (2) That the IAAM Assurance Statement and Annual Internal Audit Opinion (paragraphs 2.11 to 2.22 of the report) be accepted and considered by the Committee in relation to the annual governance review and Annual Governance Statement, which is to be considered at the September 2017 meeting.

**10 INTERNAL AUDIT STRATEGY AND RISK BASED PLAN 2017/18**

The Internal Audit and Assurance Manager (IAAM) presented the Internal Audit Strategy and Risk Based Plan and sought the Committee's approval for the proposed Internal Audit Strategy and Annual Risk Based Plan for 2017/8.

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 approved terms of reference (the Audit Charter) and how it linked to the Councils' organisations objectives and priorities.

Members asked questions in relation to allocation of resources based on risk, and a number of questions regarding health and safety auditing.

It was proposed by Councillor Hartley and seconded by Councillor Thomas:

“That the recommendation, as 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 clearly carried.

***Resolved:***

That the Internal Audit Strategy and Risk Based Plan for 2017/18 be approved.

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Chairman

(The meeting ended at 7.45 p.m.)

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