

Present:	Councillor Tony Speakman (<i>in the Chair</i>)
Councillors:	Thomas Dyer, Geoff Ellis, Jim Hanrahan, Gary Hewson, Ronald Hills and Jackie Kirk
Independent Member:	Jane Nellist
Also in Attendance:	Mike Norman, KPMG
Apologies for Absence:	None.

41. Confirmation of Minutes - 13 February 2018

RESOLVED that the minutes of the meeting held on 13 February 2018 be confirmed.

42. Matters Arising

The Chair referred to the Draft External Audit Plan which had been deferred from the last meeting and still remained unavailable.

Mike Norman, representing KPMG, updated members of Audit Committee in respect of the External Audit Plan covering the following main points:

- There had been some issues with regard to the external audit timetable
- In June 2016 EU Audit legislation affected organisations with tradeable listed debt. It transpired that this authority possessed 1919 3% redeemable stock, although not traded since 1972. this stock was subject to an annual valuation.
- KPMG as external auditor for this authority needed to carry out an engagement partner review in this respect to report into the External Audit Plan, although it was not a fundamental issue.
- There were no additional risks, only amendments to wording and governance arrangement checks.
- One specific requirement was an expectation that one member of Audit Committee must be competent in Accountancy/Auditing procedures.
- Our Independent Member, Jane Nellist had the necessary qualification, however, it was necessary to clarify the legal position regarding her status as an independent member

The Chair advised the need to have a clear understanding of the legal position moving forward. He confirmed that he was happy for Jane Nellist to represent Audit Committee as an independent member with Accountancy knowledge on the board.

RESOLVED that the Draft External Audit Plan 2018/19 be circulated to members within the next week or so inviting comments before the next meeting of Audit Committee on 14 June 2018.

43. Declarations of Interest

Councillor Jim Hanrahan declared a Disclosable Pecuniary Interest with regard to the agenda item titled 'IAS19 - Assumptions Used to Calculate Pension Entries in the 2017/18 Statement of Accounts'.

Reason: He was in receipt of a Council pension.

44. Annual Governance Statement Monitoring

Pat Jukes, Business Manager, Corporate Policy:

- a. presented a progress update on those areas identified as 'significant governance issues' as set out in the 2016/17 Annual Governance Statement (AGS), which Audit Committee had a role to review
- b. stated that the report provided details of the monitoring arrangements for the significant internal control issues raised in the latest AGS
- c. reported on the key actions scheduled to be implemented over the coming months as detailed at Appendix A to the report, to be reviewed by the Service Manager's Group as well as the Audit Committee, covering the following main areas:
 - Information Management
 - IT Disaster Recovery
- d. highlighted two areas, Partnership Companies and Risks around compliance to the Lincoln Project Management Model, which although not considered as significant issues required a retained focus, as detailed at Appendix A to the report
- e. requested that members of Audit Committee give consideration to the content of her report.

RESOLVED that the content of the report be noted and monitoring arrangements be continued.

45. Information Management Update

Sally Brooks, Information Governance Officer:

- a) presented an update on progress in relation to information management, and in particular the General Data Protection Regulation (GDPR) Vision 2020 project
- b) advised that the Information Commissioners Office (ICO) set out the framework for the Council to work in to ensure compliance with the Data Protection Act 1998 ('DPA') and the General Data Protection Regulation which would come into force on the 25 May 2018, also the forthcoming Data Protection Bill due to replace the DPA in April/May 2018
- c) reported on progress made by the Information Governance Officer in relation to the Data Protection training programme, GDPR Working Group, GDPR Action Plan and information management, as detailed within paragraphs 2/3/4 of the report and Appendix A
- d) reported on fewer breaches in recent months, none having resulted in sanctions from the IGO
- e) outlined the GDPR fee structure, noting that the Data Protection Officer post required under the GDPR was now in the process of being recruited

- f) confirmed the Annual Governance Statement (AGS) status for the Information Governance section currently at amber, work on implementation of the GDPR would be reviewed in due course to see whether the Council might improve this status
- g) requested members' feedback on the content of the report.

Members discussed the content of the report in further detail.

The Chair offered the continued support of Audit Committee as and when required to help achieve necessary actions for the implementation of GDPR.

Sally Brooks, Information Governance Officer, thanked members for this offer of assistance, highlighting that some aspects of the work may not be complete by 25 May 2018, adding that Assistant Directors had asked for a regular update up to that point.

Members queried whether this authority would be responsible for breaches of data protection in relation to the North Kesteven District Council shared benefit service?

Sally Brooks, Information Governance Officer, emphasised the importance of being clear we were joint controllers of data in this respect. It would depend upon the area where the breach occurred as to who would be responsible. Transparency in the public domain was vitally important. Data breach insurance would be available once the legislation was enforceable from 25 May 2018.

Members asked whether officers were working with partners to ensure shared data was GDPR compliant.

Sally Brooks, Information Governance Officer confirmed that information sharing agreements, data protection impact assessments were required to ensure partners cooperated in respect of information sharing requests.

RESOLVED that:

1. Audit Committee's continued support to information management work being actioned by officers be recorded, together with recognition of the importance of the GDPR legislation for the Council and individuals whose data we held.
2. The content of the officer's report including progress with the internal GDPR Working Group and action plans be noted.

46. Risk Management - Annual Update

Rob Baxter, Interim Chief Finance Officer:

- a. reported on the risk management framework adopted by the council and risk management activity during 2017/18
- b. advised that the Council's Risk Management Strategy, presented tonight for members information, had recently been reviewed based on a risk appetite methodology approach to the management of the Council's risks to reflect the environment in which it operated

- c. advised that a key element of the Council's management of its risks involved the development and monitoring of the key strategic risks which could affect the Council's ability to achieve its priorities during the year; the Council's Strategic Risk Register currently identified seven strategic risks as detailed within the report and associated appendices
- d. outlined the framework of the risk management strategy in further detail, covering the following main topic areas:
 - Risk Management Strategy
 - Formulation of the Strategic Risk Register (Appendix A)
 - Formulation of the Directorate (Operational) Risk Registers
 - Risk Advisory Group
 - Training
 - Risk Management Benchmarking
 - Greater Lincolnshire Risk Management Group
 - Internal Audit
- e. reported that an Internal Audit undertaken during 2017/18 of the Council's risk management arrangements had concluded there was substantial assurance that the Council had effective risk management arrangements in place
- f. requested members' consideration on the content of the report.

Members considered the report in further detail.

Jane Nellist, Independent Member, referred to the current economic climate which impacted on retailers in the city in terms of outturn. This was a potential risk to the council in terms of income from business rates going forward. She suggested that this risk be included within the strategic risk register.

Rob Baxter, Interim Chief Finance Officer, agreed to include additional text within the Strategic Risk Register to cover management of risk to business rate income.

RESOLVED that:

1. Additional text be included at Item 4 within the Strategic Risk Register to reflect management of risks to business rate income as detailed above.
2. The risk management framework adopted by the Council and the risk management activity undertaken during the year be noted.

47. Statement of Accounting Policies 2017/18

Rob Baxter, Interim Chief Finance Officer:

- a. presented for consideration the Council's accounting policies, used to prepare the 2017-18 Statement of Accounts, as detailed at Appendix 1 of his report
- b. advised that each year the content of the accounting policies was reviewed to ensure it reflected the requirements of the Code of Practice on Local Authority Accounting, based on International Financial Reporting Standards (IRFS) and that it remained relevant to the Council

- c. reported that other than minor wording amendments highlighted within Appendix 1 to the report, accounting policy 12 had been extended to include Community Infrastructure Levy (CIL), which the Council had elected to change from 5 February 2018
- d. requested that members review and note the Accounting Policies to be used for the 2017/18 accounts.

RESOLVED that the Accounting Policies to be used for the 2017/18 accounts be noted.

48. External Audit Inquiries - 2017/18 Statement of Accounts

Rob Baxter, Interim Chief Finance Officer:

- a. presented a report to inform members of the External Auditor's requirement for the provision of information regarding the Council's approach to dealing with fraud, litigation, laws and regulations as part of their audit of the Council's Statement of Accounts for 2017/18 and to allow members to comment on the response related to 'Those Charged with Governance'
- b. requested members' views on the proposed response submission to the inquiries sought by the Council's external auditors, KPMG
- c. invited members' questions and comments.

Jane Nellist, Independent Member, queried whether the need for a qualified accountant and the fact that it was currently her as an Independent Member be included within the responses made and also be included within the Constitution of the City of Lincoln Council once finalised.

Mike Norman, representing KPMG, suggested that a record be made in the responses under 'compliance with laws and regulations' that Audit Committee had discussed the above matter.

Jane Nellist commented that Directorates and Managers were responsible for identifying and responding to emerging legislation, in addition to internal audit's review of emerging legislation

Rob Baxter, Interim Chief Finance Officer agreed to make amendments as appropriate.

RESOLVED that:

1. A record be made in the External Audit Inquiries responses under 'compliance with laws and regulations' that:
 - Audit Committee had considered the implications of the EU PIE requirements on its role, understood what was required and was taking steps (along with its External Auditor) to ensure the requirement arrangements were put in place.
 - A further record be made to this effect within the Constitution of the City of Lincoln Council once finalised.

- Directorates and Managers were responsible for identifying and responding to emerging legislation and complying with the legal and regularity framework
2. The proposed responses to the inquiries to those charged with governance for the 2017/18 Statement of Accounts be submitted.

49. Review of the Constitution - Financial Procedure Rules

Robert Baxter, Interim Chief Finance Officer:

- a. presented to Audit Committee the revised Financial Procedure Rules and associated amendments required to the Constitution for consideration and recommendation for adoption by Council, as detailed at Appendix A to the report
- b. highlighted that The Financial Procedure Rules provided a framework for officers to work within to ensure compliance with the need to secure proper administration of the Council's financial affairs as required by section 151 of the Local Government Act 1972
- c. reported that the last fundamental review took place in 2010, as approved by Council on 9 December 2010, with subsequent updates to reflect necessary changes
- d. advised that the changes now required would ensure officers had the flexibility to respond to the changing environment in which the Council now operated, taking into account the launch of the Council's Vision 20290, the restructure of senior management in 2016 and the recent outcomes of the Corporate Peer Challenge, to ensure the Financial Procedure Rules remained robust and relevant to the current organisational environment.

Members discussed the content of the report in further detail.

A motion was proposed and seconded that changes to paragraph 7.1.5 of Financial Procedure Rules amending fees and charges be updated to read:

*"In such circumstances the relevant Assistant Director has the discretion to amend the set fees and charges by +/- 50% for any individual fee, after consulting with the relevant Portfolio Holder Such an occurrence shall be reported to the **Executive at the earliest opportunity.**"*

An amended motion was proposed and seconded that changes to paragraph 7.1.5 of Financial Procedure Rules remained as the status quo without any changes as follows:

"In such circumstances the relevant Assistant Director has the discretion to amend the set fees and charges by +/- 50% for any individual fee, after consulting with the relevant Portfolio Holder. Such an occurrence shall be reported by the Assistant Director to full Council at the earliest opportunity."

The amended motion was put to the vote and carried.

RESOLVED that the revised Financial Procedure Rules as detailed at Appendix A to the report subject to the amendment at paragraph 7.1.5 detailed above be recommended to Council for approval.

50. IAS19 - Assumptions Used to Calculate Pension Entries in the 2017/18 Statement of Accounts

(Councillor J Hanrahan left the room during the discussion of this item, having declared a Disclosable Pecuniary Interest in the matter to be discussed.)

Rob Baxter, Interim Chief Finance Officer:

- a. presented a report to allow the committee to consider the assumptions the pension fund actuary proposed to use in preparing IAS19 figures for inclusion in the 2017/18 Statement of Accounts
- b. advised that IAS19 represented the accounting standard for pension costs, based on the simple principle that an organisation should account for retirement benefits when it was committed to give them
- c. informed members that in order to calculate the costs of earned benefits for inclusion in the statement of accounts, the scheme actuaries used assumptions to reflect expected future events which led to best estimates of future cash flows arising under the scheme liabilities
- d. advised that the council planned to use the calculated costs and the underlying assumptions, based upon the specialist advice of the actuary of the Lincolnshire County Council Pension Fund in preparing the Statement of Accounts for 2017/18
- e. detailed further financial and demographic assumptions at paragraph 3 and 4 of the report and relevant financial implications at paragraph 5 of the report
- f. requested that Members approve the IAS19 assumptions the pension fund actuary proposed to use in preparing IAS19 figures for inclusion in the 2017/18 Statement of Accounts.

Members discussed the content of the report in further detail.

RESOLVED that the IAS19 assumptions the pension fund actuary proposed to use in preparing IAS19 figures for inclusion in the 2017/18 Statement of Accounts be approved.

51. Internal Audit Plan 2018 - 19

(Councillor Hanrahan re-joined the meeting.)

John Scott, Audit Manager:

- a) presented for consideration and approval the Internal Audit Plan and Strategy 2018-19, as detailed at Appendix A to his report
- b) drew members' attention to the areas proposed for auditing

- c) advised that minor variations to the plan may be approved by Management on a risk basis; whilst any major changes would be reported via the Audit Committee in accordance with agreed terms of reference the intention however was to remain reactive responding to changing circumstances or emerging risks during the year
- d) highlighted that it was likely that Housing Benefit Subsidy claim work would be completed by Internal Audit again during 2018-19, therefore an allocation was included within the plan
- e) reported the only changes from the draft plan incorporating HR work based learning, HR people strategy remaining with resources to be assessed in-year for this, and equality and diversity programmed for 2019/20 however a management assurance report would be provided during 2018/19
- f) invited members' questions and comments.

RESOLVED that the Internal Audit Plan 2018-19 be approved.

52. Internal Audit Progress Report

John Scott, Audit Manager:

- a. presented the Internal Audit Progress Report to Audit Committee, incorporating the overall position reached so far and summaries of the outcome of audits completed during the period January – March 2018, as detailed at Appendix A
- b. highlighted that Audit Committee had the responsibility for receiving a regular progress report from Internal Audit on the delivery of the Internal Audit Plan as a key requirement of the Code of Practice for Internal Audit in Local Government
- c. advised that the report covered the following main areas:
 - Progress Against the Plan
 - Summary of Audit Work
 - Implementation of Audit Recommendations
 - Current Areas of Interest Relevant to the Audit Committee
- d. reported on audits carried out in the following areas given assurances as follows:
 - Asset Acquisition (Substantial)
 - Car Park Income (Substantial)
- e. reported on other significant work ongoing, audits currently in progress, high priority recommendations completed, due, and overdue, medium priority outstanding recommendations due and not yet due as at 15 March 2018, contents of the Audit Plan Schedule, performance information against targets for the 2017/18 audit year at 28 February 2018, other work in progress and matters of interest as detailed within the report and associated appendices
- f. requested members' consideration on the content of the report.

Members discussed the content of the report in further detail.

The following questions emerged:

- Question: In relation to the audit of asset acquisition, was an expected return level set based on investment in the money market or at a set figure?
- Response: The suggestion was there should be a minimum percentage of return after financing costs. Return was not based on a set percentage, the challenge was whether an asset met the criteria first followed by each investment being evaluated on its own merits.
- Question: Would considerations of due diligence be brought before this committee?
- Response: No. An assessment as to whether to buy the asset would be taken in the first place.
- Question: In relation to the audit of housing repairs new stores contract due to commence July 2018, why was its current status rated as limited assurance?
- Response: This was due mainly to work required between the Council and the service operator on updating service information. Servitor was due for an upgrade following review of the Choice Based Lettings Policy.

RESOLVED that the contents of the report and continuation of further monitoring arrangements be noted.

53. Combined Assurance Report

John Scott, Audit Manager:

- a. presented the combined assurance report which grouped the different sources of assurance in a single model to provide the basis for Senior Management and the Audit Committee to gain a better understanding of their organisation's assurance status and needs, detailed at Appendix A
- b. summarised the assurance levels for different areas of Council business
- c. provided the key message out of the 212 areas of critical services/systems, projects and risks:
 - 172 had green assurance (81%)
 - 33 had amber assurance (15%)
 - 7 had red assurance (4%)
- d. advised that overall percentage assurance ratings had changed slightly compared to 2016/17
- e. reported that consideration should be given to Red or Amber areas for the Annual Governance Statement and the 2018/19 internal audit plan
- f. highlighted that this was a positive report showing an improved assurance position with plans in place to mitigate amber/red assurance areas
- g. invited members' questions and comments.

Members discussed the content of the report in further detail.

RESOLVED that the content of the Combined Assurance report be noted.

54. Fraud Risk Register

John Scott, Audit Manager:

- a. presented a report to provide Audit Committee with an updated fraud risk register for consideration, as detailed at Appendix A
- b. advised that the register containing 24 risk areas had been developed in conjunction with Assurance Lincolnshire partners, who had also recently updated their own registers, covering specific service based fraud risks, e.g. Council Tax or Tenancy, and other more general risks such as contracting/contract management, procurement, payments, income collection, payroll/employees, IT/data, theft/asset misuse, bribery and corruption which could apply corporately
- c. reported that in most areas risks were Green and there were a small number of Amber risks (five in total), with some mitigating actions to consider/complete which would be brought back to Audit Committee for monitoring purposes between reviews
- d. advised that the register would be circulated to Assistant Directors and Service Managers; CMT were satisfied with the review/mitigation/action plans
- e. requested members' feedback on the content of the report.

Members discussed the content of the report in further detail.

RESOLVED that the content of the latest fraud risk register be noted.

55. Audit Committee Work Programme

John Scott, Audit Manager, presented a report to inform members of Audit Committee on the work programme for 2018/19 as detailed at Appendix A.

RESOLVED that that the contents of the Audit Committee work programme 2018/19 be noted.

56. Other Matters

Councillor Speakman thanked members and officers for their assistance during his term as Chair of Audit Committee. He wished everyone good luck for the future, this being his final Audit Committee meeting prior to his retirement from office.

John Scott, Audit Manager thanked Tony for all his help over the years on behalf of all members and officers and wished him a very happy retirement.