

- Present:** Councillor Tony Speakman (*in the Chair*)
- Councillors:** Thomas Dyer, Paul Gowen, Gary Hewson, Ronald Hills and Jackie Kirk
- Also Present:** Mike Norman, KPMG
- Apologies for Absence:** Councillor Geoff Ellis, Councillor Jim Hanrahan and Jane Nellist (Independent Member)

32. Confirmation of Minutes - 19 December 2017

RESOLVED that the minutes of the meeting held on 19 December 2017 be confirmed.

33. Declarations of Interest

Councillor Ronald Hills declared a Disclosable Pecuniary Interest with regard to the agenda item titled 'Internal Audit Progress Report'.

Reason: In relation to any reference to the Western Growth Corridor, this subject matter related to property and land in his ownership. He left the room during the discussion of this item.

34. Draft External Audit Plan (To Follow)

This agenda item was deferred to the next meeting of Audit Committee to be held on 27 March 2018.

35. Certification of Grant Claims

John Scott, Audit Manager:

- a. reported that External Audit was required to report annually the results of grant certification work
- b. requested that members receive and comment on the findings of the External Audit Grant Claims and Returns report for 2016/17, which was largely factual and similar in format to that submitted in previous years.

Mike Norman, representing KPMG, external auditor:

- a. presented the Annual Report of the City of Lincoln Council on the Certification of Grants and Returns 2016/17
- b. reported on certification work undertaken resulting in adjustments having been made to the council's housing benefit claim, as in previous years subject to a qualification letter, which reduced the overall amount of subsidy due to the council by £1129.00
- c. advised that there had been some errors in the Council 's Housing Pooling Return, resulting in an increase in poolable receipts of £134,000, however, an unqualified assurance report for this return was issued

- d. reported the proposed fee from KPMG for certifying the Council's 2016/17 Housing Benefit Subsidy grant at £10,173, which was still subject to approval by the Public Sector Audit Appointments Limited (PSAA)
- e. added that the fee for the Housing Pooling Return had been agreed directly with the Council amounting to £3,000.

Members discussed the content of the report in further detail, asking the following questions:

Question: Would the Housing Benefit Subsidy grant be affected by roll-out of Universal Credit with the council having less site of what clients were claiming?

KPMG Response: Core assessments were based on earnings and allowances. It was feasible this could have an effect. He would look into this matter further and report back to members under separate cover.

Question: What did the pooling return relate to?

KPMG Response: It related to the sale of 40-50 council houses a year and equated to notional debt.

John Scott, Audit Manager emphasised that the Council had an incentive to keep errors as low as possible in respect of housing benefit subsidy, which was showing at 98% accuracy on the IMPS system.

Mike Norman, representing KPMG commented that the housing benefit subsidy claim was an inherently complicated system with more claims being qualified than not.

RESOLVED that the content of KPMG's report and members comments on the certification of grants and returns 2016/17 be noted.

36. Review of Code of Corporate Governance

John Scott, Audit Manager, on behalf of Heather Grover, Principal Policy Officer:

- a) presented a report to inform Audit Committee of the outcome of a review of the Code of Corporate Governance
- b) confirmed that City of Lincoln Council adopted a new Code of Corporate Governance in March 2017, with an agreed first review date of January 2018
- c) advised that an internal audit was undertaken in autumn 2017 to look at compliance with the code, and as a result of the audit some very minor changes to the code itself were also identified as detailed at paragraph 3.4 and Appendix A of the report
- d) reported that no further changes were recommended at this time and it was proposed the next review should be in January 2020
- e) invited members' questions and comments.

John Scott, Audit Manager confirmed that Jane Nellist, Independent Member, had suggested to him that the Whistle Blowing Policy be included in the key document list for the Code of Corporate Governance.

The Chairman supported Janes comment as relevant.

Members queried how the results were arrived at and recorded in relation to the seven core principles outlined within the Code of Corporate Governance, and suggested that this should be incorporated into the 2020 review.

John Scott, Audit Manager advised that the results were determined by a self-assessment exercise conducted by officers a few years ago. CIPFA/SOLACE Guidance was relatively detailed but open to interpretation by local authorities. Analysis would always be subjective. He suggested that Audit Committee members be provided with a few examples of how the results were decided in relation to the various key processes.

RESOLVED that:

1. Audit Committee members be provided with a few examples of how results were arrived at and recorded in relation to the seven core principles outlined within the Code of Corporate Governance.
2. Minor amendments to the Code of Corporate Governance be noted incorporating the Whistle Blowing Policy within the key document list for the Code of Corporate Governance.
3. The next review date for the Code of Corporate Governance of January 2020 be agreed.

37. Prudential Indicators 2017/18 - 2020/21 and Treasury Management Strategy 2018/19

Sarah Hardy, Group Accountant (Technical and Exchequer):

- a. presented a report for Audit Committee to scrutinise and recommend to the Executive for approval the adoption of the 15 statutory prudential indicators and 8 local indicators for the period 2017/18 to 2020/21, together with the 2018/19 Treasury Management Strategy alongside the Medium Term Financial Strategy 2018-23, prior to being reported to Council for final approval
 - b. referred to training undertaken prior to the start of this meeting in relation to Treasury Management in order to help members take an informed view on the contents of this report
 - c. summarised the key prudential indicators which had been incorporated into the 2018/19 strategy; the projected capital expenditure would determine the capital financing or borrowing requirement, which would in turn determine the actual level of external borrowing taken and hence, cash balances available for investment
- a. reported on the methodology employed for selecting investment counterparties as detailed at paragraph 2.2 of the report
 - b. advised that the strategy for 2018/19 had been prepared taking into account changes in the Prudential Code and Treasury Management Code

- c. outlined the operation of the Council's prudential indicators, its treasury function and its likely activities for the forthcoming year, incorporating the four key Council reporting requirements as follows:
- Prudential and Treasury Indicators
 - Minimum Revenue Provision (MRP) Statement
 - Treasury Management Strategy
 - Investment Strategy
- d. requested that Audit Committee review the content of the report and its associated appendices and recommend to Executive and Council for approval.

Members considered further the content of the report, raising the following questions:

- Question: Would capital receipts from the sale of land/property still be available by the year 2020?
- Officer Response: The balance of capital receipts was not shown in the table provided at paragraph 4.1.2 of the report. It would be detailed in the final Medium Term Financial Strategy 2018-2023(MTFS).
- Question: How were large capital sums allocated to projects during the year built into the MTFS?
- Officer Response: New projects which came on board during the year would be presented to Executive for approval as part of the capital programme moving forward. Performance Scrutiny Committee also received regular quarterly financial updates.
- Question: How did ongoing maintenance of assets get accounted for?
- Officer Response: A maintenance budget and a sinking fund capital budget was built into the figures for the MTFS.
- Question: What happened to those assets reducing in value and dropping to the bottom of the priorities list?
- Officer Response: An asset register was kept/maintained. The Council's priorities at any one time dictated whether or not individual assets were the subject of investment. A cyclical programme of asset revaluation was undertaken, any devaluation of assets would be reflected in the balance sheet.
- Question: What was the meaning of 'counterparties'?
- Officer Response: This was a standard description in treasury terms for people the Council had financial arrangements with.

RESOLVED that:

1. The prudential indicators detailed in Section 4.1 and Appendix 1 of the report be recommended to Executive and Council for approval.
2. The Treasury Management Strategy (including the Treasury Management Prudential Indicators and the Investment Strategy) as set out in Section 4.3 and Appendix 3 of the report be recommended to Executive and Council for approval.

38. 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 November 2017 – January 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 public sector internal audit standards
- 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. highlighted audits carried out in the following areas given assurances as follows:
 - Debtor Key Controls: High Assurance
 - Tenancy Services: Substantial Assurance
 - Creditors Key Controls: Substantial Assurance
- e. reported on other significant work ongoing in relation to:
 - Parliamentary Election – Claim for Expenses
 - Choice Based Lettings
 - General Data Protection Regulations
 - Combined Assurance Map
 - 2018/19 Audit Plan
 - Asset Rationalisation
 - Western Growth Corridor
- f. advised on audits currently in progress as detailed at paragraph 6 of the report
- g. reported on high priority recommendations completed, due, overdue and not yet due at pages 160-161 of the report
- h. added that high priority audit recommendations due March 2018 would be forwarded to members under separate cover once the relevant information was available
- i. detailed the contents of the Audit Plan Schedule at Appendix 2 of the report
- j. highlighted performance against annual planned work targets as detailed at paragraph 8 and Appendix 4 of the report
- k. presented an updated version of medium priority recommendations due and not yet due as at 31 January 2018 at Appendix 5, including additional information showing further progress made since the previous committee meeting, as requested by members

I. requested members' consideration on the content of the report.

(Councillor Hills left the room at this point, having declared a disclosable pecuniary interest in any discussion on the Western Growth Corridor.)

The Chair pledged the support of Audit Committee to the recommendations carried through in the internal audit review in respect of Western Growth project management, registering support for strong financial and governance arrangements.

Members highlighted that if any performance issues should arise in relation to the project management of the scheme these would be referred to Performance Scrutiny Committee.

(Councillor Hills re-joined the meeting.)

Members discussed the remaining content of the report.

Members sought and received confirmation from John Scott, Audit Manager that his team was made up of the equivalent of 3 full time staff.

Members thanked the Audit Team for all the hard work they were doing.

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

39. Internal Audit Plan

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 an allocation for Housing Benefit Subsidy claim work was included in the Internal Audit Plan as it was likely that it would be completed by Internal Audit again during 2018/19
- d) reported that minor variations to the plan may be approved by Management on a risk basis; any major changes would be reported via the Audit Committee in accordance with the agreed terms of reference
- e) invited members' questions and comments.

Members considered the content of the report in further detail, raising questions which received responses from officers as follows:

- Comment: Equality and Diversity did not seem to be represented in the 2018/19 plan.
- Response: This would be considered for inclusion.
- Question: Was Universal Credit to be considered as an internal audit priority?
- Response: Yes. It should have a 'tick' against it in the agenda paperwork.
- Question: Why was the Internal Audit risk for Key Control Testing showing as red, whereas the Risk Advisory Group rated it as green?

- Response: Our Internal Audit risk assessment was rated quite highly in respect of key controls tested being of crucial importance to the Council involving large sums of money. The Risk Advisory Group ratings related to how the key controls were managed.

John Scott, Audit Manager, advised that homelessness was the subject of impending new legislation which needed time to be embedded before an audit was conducted. The authority was trying to be more reactive in respect of audit areas reported to committee, to account for change on a risk basis.

The Chair asked any members with suggestions to feed into the Draft Internal Audit Plan to contact the Audit Manager directly following this meeting.

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

40. Audit Committee Work Programme

John Scott, Audit Manager, presented a report to inform members of Audit Committee on the work programme for 2017/18 as detailed at Appendix A.

RESOLVED that that the contents of the Audit Committee work programme 2017/18 be noted.