AUDIT AND ASSURANCE COMMITTEE

Minutes of a Meeting of the Audit and Assurance Committee held on Tuesday, 12 September 2017 at Conference Room A & B Cumbria House, Carlisle at 10.30am

PRESENT:

Mrs HF Carrick (Chair)

Mrs PA Bell  Mr NH Marriner
Mr SB Collins  Mr KR Hamilton
Mr LN Fisher  Mr DE Southward (Vice-Chair)

Also in Attendance:-

Mrs J Bellard  -  Director - Grant Thornton
Mrs J Crellin  -  Assistant Director - Finance (Section 151 Officer)
Mrs J Curie  -  Senior Democratic Services Officer
Ms K Fairclough  -  Chief Executive
Mr G Kelly  -  Associate Director - Grant Thornton
Ms A Pieri  -  Manager, Public Sector Assurance - Grant Thornton
Mrs N Parker  -  Group Audit Manager
Mr D Parr  -  Senior External Peer, Halton Borough Council
Ms I Puzio  -  Monitoring Officer - Legal and Democratic Services
Dr D Roberts  -  Corporate Director – Resources and Transformation
Mr P Robinson  -  Assistant Director - Transformation

PART 1 – ITEMS CONSIDERED IN THE PRESENCE OF THE PUBLIC AND PRESS

1 APOLOGIES FOR ABSENCE

There were no apologies for absence for this meeting.

2 MEMBERSHIP

Membership of the Audit and Assurance Committee, as appointed by Council, was noted as:-

Mrs HF Carrick (Chair)
Mr DE Southward (Vice Chair)
Mrs PA Bell
Mr SB Collins
Mr LN Fisher
Mr KR Hamilton
Mr NH Marriner
3 DISCLOSURES OF INTEREST

Mr DE Southward declared an interest under the Members’ Code of Conduct in Agenda Item No 14 – Port of Workington Harbour Accounts, as the Port came under his portfolio as Cabinet Member for Economic Development

Mr P Robinson – Assistant Director - Transformation declared an interest under the Officers’ Code of Conduct in Agenda Item 6(D) – Amey Lessons Learned as in August 2016 he became responsible for the Policy Team and the Communications Team within the County Council which produced corporate risk reports. Mr Robinson confirmed this responsibility commenced after the Amey trial had concluded and had no conflict with the independence of the Lessons Learned review undertaken.

4 MINUTES

RESOLVED that the minutes of the previous meeting held on 20 March 2017 be agreed with the following amendment:-

Minute No 76 – change the reference to the General Election to County Council election

Minute No 78 – third paragraph, second last line - change the reference to the general election to County Council election

5 EXCLUSION OF PRESS AND PUBLIC

RESOLVED that, the press and public be not excluded from the meeting during consideration of any item of business on the agenda.

6 AMEY LESSONS LEARNED

(A) Role of the Audit and Assurance Committee in relation to the AMEY Lessons Learned Process

The Monitoring Officer presented a report to the Audit and Assurance Committee, which set out the role of the Audit and Assurance Committee in relation to the Amey Lessons Learned process.

She explained that the Chartered Institute of Public Finance and Accountancy (CIPFA)’s Position Statement on Audit Committees stated that ‘the purpose of an audit committee was to provide independent assurance to those charged with governance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes’.
The Council’s terms of reference for the Audit & Assurance Committee had been written to align with the CIPFA Position Statement on Audit Committees and were included within the Constitution.

The purpose of the Audit & Assurance Committee was stated within the constitution as:-

‘to provide independent assurance to Members on the adequacy of the risk management framework and the internal control environment’.

The Monitoring Officer then explained the role of the Audit and Assurance Committee in relation to the Amey Lessons Learned Review.

The Role of Audit & Assurance Committee was to:

- Review the Lessons Learned report and seek assurances from the Assistant Director about the processes followed to ensure the review was comprehensive and that any key lessons are identified, documented, appropriately communicated and actions are being monitored;
- Consider the report of the Group Audit Manager and seek assurances that in respect of the agreed scope, the processes followed were adequate and effective to lead to appropriate conclusions;
- Consider the assurances provided by the Council’s external senior peer acting as ‘critical friend’; and
- Form a view on the adequacy and effectiveness of the Lessons Learned review and subsequent actions to be assured that governance, risk management and internal control processes are appropriate for the future.

She emphasised the need for the Audit and Assurance Committee to remain impartial – the role of the Committee relating to the Amey Lessons Learned review was to assure itself that the process and the probity of the process followed were robust, sufficiently independent and appropriate. The Committee must have a degree of separation from the investigations themselves in order to ensure its independence in undertaking its role was not compromised. This was noted and agreed by members.

RESOLVED that the report be received and noted.

(B) Statement of Opinion - Senior External Peer

The Senior External Peer – Mr David Parr (Chief Executive of Halton Borough Council) presented a report which outlined his independent statement of opinion in relation to the Amey Lessons Learned - Process and Outcomes.

The statement of opinion was provided by him, as the independent Senior External Peer commissioned by Cumbria County Council (the Council) and contained his professional opinion regarding the Lessons Learned process conducted by the
Council in respect of the procurement, contract management and litigation arising out of the Amey v Cumbria County Council case, with particular focus on the robustness of the lessons learned process undertaken.

The Senior External Peer explained that in forming this opinion he had:

a) Researched the key facts and chronology of the case and provided constructive and robust challenge to the process
b) He had also:-

- Reviewed the Amey v Cumbria County Council High Court litigation judgment and the actions of the Council and others involved before, during and after the various legal proceedings;
- Reviewed the case chronology and the input of key organisations and officials involved;
- Discussed with Cumbria County Council officials (including the outgoing and new Chief Executive) and previous and current Audit and Assurance Committee Chairs and Vice Chairs their expectations for the lessons learned process;
- Discussed this matter with Grant Thornton UK LLP as external auditor;
- Discussed this matter with Cumbria County Council’s Group Audit Manager;
- Undertaken interviews with Cumbria County Council lessons learned facilitators and in particular had regular discussion with and provided challenge to the AD Transformation on the key lines of enquiry;
- Reviewed the Lessons Learned draft report and governance processes in place to progress the report and supporting evidence to the Audit & Assurance Committee.

Mr Parr explained to members that his role as external senior peer was to:-

- Provide professional insight and experience regarding this major commercial contract, performance management expectations, dispute resolution process and litigation management;
- Provide an external peer opinion regarding the key aspects of the case where further probity is required by the Council to ensure any lessons are identified and learned;
- Observe, challenge and advise on the lessons learned methodology being undertaken by the AD Transformation;
- Provide robust challenge to any gaps in the methodology being undertaken to ensure that the lessons learned process is independent of those involved in the case, thorough, robust and evidence based;
- Provide Chief Executive level advice to, and respond to queries from, the AD Transformation and Cumbria Country Council elected members regarding (for example) the approach likely to be taken if this case had happened elsewhere.
- Be available to Grant Thornton UK LLP external auditors, Cumbria County Council Audit and Assurance Committee Chair and Vice Chair.
and Cumbria Head of Internal Audit should they have questions or concerns to raise;

- Consider, comment on and challenge the lessons learned draft recommendations both in terms of the content and format of the report.

The Senior External Peer confirmed that it was his professional opinion that the lesson learned process had been comprehensive, rigorous, transparent and robust. His opinion was that all those who had contributed had been motivated to understand what happened, why it happened, what must be done to ensure lessons were learned to minimise or remove the risk of similar events happening again. Mr Parr was confident those involved had approached the process with openness and honesty.

Mr Parr commented that the officers involved, led by the Assistant Director - Transformation and the Senior Manager Performance and Risk, had been thorough, professional, challenging and operated with a high level of integrity throughout. They were impressive individuals and a great credit to the Council and public service. Their approach had been comprehensive and searching, and at times had put them in challenging situations with peers, senior colleagues and members. They had not shied away from asking the difficult questions and this had resulted in a lessons learned process that was both comprehensive and added value.

They had also brought a degree of independence to the process that he believed gave the lessons learned process high credibility that was important and provided reassurance to the public and other interested parties, that they could be satisfied that due process had been followed and due diligence applied.

The Senior External Peer felt it was now important that the Council carefully considered the lessons learned, accepted the recommendations and produced and implemented an Action/Delivery Plan to deliver the learning in a timely and effective way.

He was pleased to report that he had already seen evidence of the Council implementing new ways of working, informed by the learning from the Lessons Learned process, which was encouraging and had confidence that further improvement was planned as a result of the action plan to be considered by the Committee.

The Chair thanked the Senior External Peer, on behalf of both the County Council and the Audit and Assurance Committee, for giving his time voluntarily to help Cumbria County Council during this process.

(C) Internal Audit Assurance Report - AMEY Lessons Learned

The Group Audit Manager presented a report which explained that she was asked to provide input to the Lessons Learned process in order to give assurance to Audit & Assurance Committee over the arrangements for undertaking the review.
The scope of the audit was determined by the Group Audit Manager to provide assurance over four key aspects of the work:

- The robustness of the process undertaken;
- The independence of the review;
- The arrangements for ensuring completeness of the outcomes of the review; and
- The robustness of the arrangements for taking the actions forward to cascade learning and strengthen governance and procedures.

The Group Audit Manager confirmed to the Audit & Assurance Committee that an overall assessment of ‘Reasonable Assurance’ could be provided with the ‘Reasonable Assurance’ opinion also given for each of the four scope areas. The Group Audit Manager stressed that ‘reasonable’ assurance was a high assurance level and stressed to members this demonstrated the review had sufficient independence and rigour.

There were a small number of recommendations arising from the internal audit review generally, which related more broadly to documenting some elements of governance in relation to the management / governance of a project of this size and nature, rather than concerns of the review work undertaken and stressed that the recommendations do not in any way undermine the conclusion of Reasonable assurance, but may assist in decision making should the Council need to undertake future major reviews of a similar nature:

- R1 Ensure there is a formal record of the decision as to how major reviews are to be undertaken to aid transparency
- R2 Ensure issues and actions are tracked through a log to provide robust assurance that all matters have been followed up and resolved
- R3 For future reviews, ensure that timescales for reporting are realistic and informed by an assessment of the work required
- R4 For future reviews, ensure that the governance arrangements are documented at the start to aid clarity and reduce the risk of any undue influence over the process.

Members asked the Group Audit Manager to comment on R3 – ensure that timescales for reporting are realistic and informed by an assessment of the work required. The Group Audit Manager explained that this recommendation was about setting realistic deadlines at the start to enable a full investigation and review to be undertaken. The timescales for the Amey Lessons Learned Review was originally estimated to only allow around 8 weeks for the understanding and interview phase, which had turned out to be insufficient given the amount of work that was needed, and was correctly extended to ensure a full and thorough review was undertaken. In future, if another review was needed, the scope of the work to be done would determine the timescale, rather than an estimated date for the completion of the work. Members expressed the view that producing a thorough and accurate report should be the focus and that prescribed deadlines must not compromise quality.

**RESOLVED** that the report be received and noted.
(D) AMEY Lessons Learned

The Audit and Assurance Committee considered a report from the Assistant Director – Transformation, which invited members to form an opinion as to whether the methodology used to establish the lessons learned by the Council from the events surrounding the Amey v Cumbria County Council litigation was well planned, had a high and sufficient degree of independent input, was thorough, inclusive and transparent.

Before presenting the review approach undertaken, the Assistant Director provided members with a short overview of his professional experience and training in undertaking such reviews, which related to over 20 years of public sector experience focusing on service improvement methodologies; inspection experience following set key lines of enquiry; senior level local government service improvement experience and as a trained Local Resilience Forum debrief officer, to ensure lessons and continuous learning opportunities are identified following major incidents.

He explained that having conducted significant levels of reading and interviews to understand what had happened, his conclusions resulted in a number of lessons learned (shown as L in the report) and a set of associated recommendations (shown as R in the report) all of which informed a corporate Action Plan to be considered by members later in the agenda as a separate report to be presented by the Council’s Chief Executive.

Considering the lessons learned, recommendations made and delivery of the Action Plan would provide assurances for Elected Members that the Council had taken appropriate steps to minimise or remove the risk of similar events happening in the future.

The lessons learned report was commissioned by Cumbria County Council’s previous Chief Executive, with the Assistant Director - Transformation selected to take the lead to develop and implement a review methodology to ensure an independent and thorough process was undertaken given he had only joined Cumbria County Council in February 2015 after the Amey contract had concluded and given he had no previous involvement in any aspect of the Amey litigation process.

The Amey litigation arose following a contractual dispute between Amey and the Council under which Amey was to carry out highways maintenance and associated services for the Council. The contract was for a term of 7 years commencing 1 April 2005, with an option for the Council to be able to renew for a further 3 years.

Detailed findings of the review, the lessons identified and associated recommendations made were included in the Lessons Learned Report, which had now been published.
The Assistant Director detailed the methodology used to establish Lessons Learned and explained that this was designed around the following four commitments:-

- There would be open, honest and constructive reflection, ensuring a transparent process;
- There would be robust challenge and scrutiny of those involved;
- There would be a balance of input from officers, elected members and partners that were involved in and had knowledge of the Amey case, as well as officers not involved in the case at the time, but who could provide professional insight and challenge in their current roles, to ensure both independence and rigour;
- That reflection and lessons learned would be reported to elected members via a meeting in public of the Audit & Assurance Committee.

Two senior officers, himself, and the Senior Manager - Performance & Risk facilitated the establishment of the lessons learned methodology by adopting the following approach:-

- a desktop review of all relevant documentation, which was voluminous, technical, commercially sensitive and subject to legal privilege;
- group workshop discussions with senior managers of the Council and the Council’s Amey litigation project team using pre-agreed key lines of enquiry, and
- a series of individual 1-2-1 sessions including key officers, elected members and partners, some of whom are still associated with the County Council and some who have since left the Council but agreed to contribute to the review process.

This approach was designed to ensure a balance of minimising additional costs whilst also ensuring appropriate probity and independence.

A simple, yet effective debrief and reflection process was adopted. For each workshop topic, in addition to the key lines of enquiry, the following three themes were used to help structure the sessions, capture feedback and to establish lessons learned with clear recommendations to inform actions for the Council to take going forward:

- What went well?
- What did not go well and why?
- What should the Council do differently?

He asked members to note that the lessons learned team were assured that those who participated in group and/or 1-2-1 sessions approached the process constructively, providing opinions openly based on their recollection and knowledge of the case.

He emphasised to the committee that the purpose of the review was not to re-investigate the case, as this had already been concluded by the Judge. Instead, the purpose of the lessons learned process was to engage those involved in the matter
to genuinely understand what happened, why it happened and what must be done to ensure lessons are learned and to avoid a major contractual dispute happening again.

He paid tribute to the assistance he had received from the Senior Manager - Performance & Risk in facilitating the lessons learned process.

The Assistant Director then took members through the following:-

- The background and context – including the chronology of events;
- The judgement, interest and costs awarded to Amey;
- The methodology used to establish the lessons learned.

He then presented in detail for members all the findings of what happened, the lessons learned and the recommendations of the report. The report contained 20 lessons learned and 27 associated recommendations. He explained that these recommendations had been considered by the County Council’s Corporate Management Team only to inform the required Action Plan; they would oversee the progress of an Action Plan and be accountable for its delivery.

Timely delivery of the Action Plan would put the Council in a stronger position in the future in terms of awareness, mitigation and management of similar risks or costs, and also consideration of benefits should similar circumstances arise. The focus at this stage was to learn from the past, but not dwell on the past and instead, look forward to take all necessary steps to deliver further improvement and to avoid or mitigate the risk of similar events occurring again.

The Chair thanked the Assistant Director – Transformation for his very comprehensive report and opened the floor up to questions.

One of the members asked whether, as part of the review, any consideration was given to whether the type of contract entered into was desirable or whether the contract was in fact too large to manage.

The Assistant Director had, as part of the review, examined whether the contract was robust, but confirmed an assessment of the different contract type options had not featured as a key line of enquiry during this process.

The Senior External Peer confirmed that the lessons learned review did not focus on whether the contract was the right kind of contract, but as part of the learning he hoped that in future all local authorities would consider as part of the procurement, an assessment of options at the earliest possible stage.

One member asked a question about the process of obtaining proposals and quotes for legal representation to support the Council to defend the Amey litigation, and whether anything could be learned from the way this was done.
The Assistant Director said initial quotes were sought via the North West Consortium which at that time was standard practice, as the Council had access to preferential rates from the Manchester Chambers. Although the unit cost (day rate) was greater than that available via the North West Consortium, after careful consideration, the Council took a decision to appoint its legal advisers based not just on price, but included a wider assessment of skills, quality and likely success probability and the Council had viewed this as an appropriate investment to deliver greatest benefit for the Council at trial.

The Assistant Director commented that being involved in major civil litigation of this scale was a new and unprecedented experience for the Council. The Council had a clear desire and strategy to resolve issues and settle outside of the court process, however there had been an unsuccessful attempt to resolve the dispute through meetings of senior officials and a week-long mediation process in June 2014. The Council required a strong legal team to defend the Amey litigation.

He explained that the recommendation from the review was that where external legal representation was to be procured for major projects such as this in the future, the Council should draw up a clear service specification with a documented options appraisal, considered and recorded. Where external legal or expert representation was to be provided, their expertise and experience in relation to the nature of the specific dispute in question should be assessed internally and externally by discussing any proposed appointments with experienced Counsel or solicitors who specialised in the subject-matter of the dispute. This would ensure the best overall value for money option was secured and recorded for the legal capacity, skills and subject matter experience required.

Members questioned whether, as well as legal expertise and support, additional capacity relating to technical highways expertise should also have been commissioned.

The Assistant Director said this learning came forward from the Project Team as they felt that whilst there was sufficient capability, skills and experience within the project team, enhanced capacity to assist with the volume of technical queries would have greatly assisted them.

In relation to recommendation 1, the committee queried whether the County Council had sought enough external input and due diligence before entering to a contract of this size and nature.

The Assistant Director confirmed there was no inference in the review that the County Council had not engaged with expertise to shape the Amey contract. However, even after involvement from two external companies as part of the contract steering group, gaps remained.

Members queried some of the wording used in the report for recommendation 6 and whether it was clear enough for staff to be confident that they would be listened to should they feel the need to use the Speak Up policy to raise issues.
The Chief Executive responded to confirm that the culture of the organisation needed to support staff to have confidence in the Speak Up policy, with staff encouraged to raise concerns in the confidence their views would be listened to, documented and acted upon.

Members agreed that cultural change was vital to the success of this approach, and noted that work led by the Chief Executive was already underway.

The Audit and Assurance Committee was in support of recommendation 8(c) that audit findings and follow up reports should continue to be reported to this committee. However, they sought confirmation that the reference to CMT ensuring that resources were available to allow follow up audits to be undertaken would also include resources for the Internal Audit team as well as service based staff to ensure follow up work had been completed.

The Assistant Director confirmed that the recommendation was intended to ensure that the Internal Audit team would have the adequate level of resources to allow follow up audits to be carried out.

The Chief Executive said one of the lessons learned was about the need for the council to have excellent standards of corporate governance and emphasised her personal commitment to this. She committed to raising the profile of corporate governance and the role of internal audit.

One of the members made a suggestion that recommendation 9 should be clearer about expectations for senior officers and members.

As a result, the Assistant Director confirmed the recommendation could be strengthened and suggested the recommendation on Page 24 of the report be amended from

- **6.4.10 Recommendation (R9)** – Where decisions are taken that may result in significant risks to the Council, there must be a clear expectation that senior officers and members receive all relevant information in a timely manner to thoroughly understand and consider the full extent and consequences of the potential risk. The decision, including action to be taken (or not taken) and the reasons for the decision, should be documented.

  to

- **6.4.10 Recommendation (R9)** – Where decisions are taken that may result in significant risks to the Council, senior officers and members should receive all relevant information in a timely manner to thoroughly understand and consider the full extent and consequences of the potential risk. The decision, including action to be taken (or not taken) and the reasons for the decision, should be documented.
All committee members supported this suggestion and **AGREED** the Assistant Director and Senior External Peer would update the final lessons learned report and that the Chief Executive **AGREED** that the delivery of actions in the Action Plan would reflect this.

The Audit and Assurance Committee commended all the individuals involved in the lessons learned review.

**RESOLVED** that Members,

1. Accept the assurances from the Assistant Director Transformation about the methodology followed to ensure the review was sufficiently independent, rigorous and comprehensive;

2. Accept the assurances provided by the Council’s External Senior Peer Chief Executive;

3. Agree the findings of the lessons learned review to ensure the lessons learned are identified, documented and appropriately communicated;

4. Agree the recommendations made in the lessons learned report to ensure they sufficiently inform the Corporate Action Plan that will be considered by the Committee under a separate agenda item to ensure future improvements are made.

5. Accept the adequacy and effectiveness of the Lessons Learned review and subsequent actions and are assured that governance, risk management and internal control processes are appropriate for the future.

7 **RESPONSE TO THE AMEY LESSONS LEARNED REPORT**

The Chief Executive presented a report which explained that the Council was committed to continuous improvement in the delivery of services and management of its business with the aim of supporting the Council to be efficient and effective. Learning from experience was an important part of this improvement journey.

This report responded to the recommendations made in the Amey Lessons Learned Report and provided an overview of how the organisation intended to take forward actions to address the key learning points and how progress would be kept under review.

A high level, outcome focused action plan had been developed which would be supported by more detailed plans within the relevant services.

Following the conclusion of the litigation with Amey it was recognised that a thorough lessons learned exercise would be essential to drive forward improvements in the Council’s approach to procurement, contract management, litigation and stakeholder management.
The purpose of the exercise was not to undertake an investigation, but to focus on understanding what the Council had done well, what it could have done better, and with hindsight, what it might have done differently.

The underpinning principles for the review activity were for it be undertaken in a way which enabled:

- Open, honest and supported constructive reflection
- Robust challenge and scrutiny
- Input from officer and members
- A report to be made in public with the findings of the review

The Chief Executive explained that an overall response was set out in section 5 of this report; and where additional commentary was felt to be appropriate in response to individual recommendations, this was also provided.

A detailed outcome focused Action Plan had also been developed in response to the Lessons Learned Report. This was provided as Appendix 1 and set out what management was seeking to achieve through improvement activity; the actions that would be undertaken to deliver on the outcomes; where accountability lay for actions, and target dates for delivery.

The Lessons Learned report was much welcomed as it provided objective insight into key issues relating to the Council’s approach to commissioning, procurement contract management, litigation and stakeholder engagement.

The Lessons Learned report contained a number of critical learning points which would support the Council in its continuous improvement journey; and this response had been structured around 6 key themes that have emerged from the recommendations made in the Lessons Learned report.

An Action Plan had been developed. It built on a wide range of improvement activity that commenced immediately the litigation ended; for example, changes to the way in which the Council developed its relationships with providers; and the process to introduce decision logs.

There were four major outcomes where improvement was needed and the action plan was structured around these areas. These were set out below:-

- Contracts are clear and robust, with effective and proportionate contract, performance and risk management arrangements in place.
- Strong governance arrangements are in place for services delivered by external contract.
- The Council proactively and effectively manages the risks, benefits and implications that disputes or litigation may present.
- The Council has effective communications and stakeholder relationships in place when contracts escalate towards formal dispute.
In addition to taking action to address specific areas for improvement, it was recognised there was a need to share the learning. The key audiences for this were the Extended Leadership Team (CMT and all Assistant Directors); all Senior Managers; and all staff involved in commissioning, procurement and contract management activity. The lessons learned would also be shared as part of our existing good governance training for staff.

With regards to communicating with Members; the approach would be to signpost members to the reports received by Audit and Assurance Committee; and would be incorporated into a Member Development Session on commissioning, procurement and contracts that would be offered as part of the Member Development Programme.

The Lessons Learned Action Plan would enable the Council to clearly set out what it expected to achieve. It provided clarity for the public, providers of services, staff and Members. It set out the improvement to commissioning, procurement, contract management, litigation and stakeholder engagement.

The Chief Executive confirmed she would take ownership of the Action Plan and ensure it was reviewed on a regular basis and delivery was in line with the commitments made. Reporting into CMT on this would take place once a quarter.

Members welcomed the production and rigour of the Action Plan. Going forward, they hoped to be able to see more detail about this. They would be keen to see more information in relation to Actions 4 and 5 of the action plan.

Members agreed that an Action Plan was needed to take issues and recommendations forward and welcomed the opportunity to monitor the progress of this.

RESOLVED that,

(1) Members note the response to the Amey Lessons Learned Report and supporting outcome focused Action Plan provided as Appendix 1;

(2) Members confirm that the response and Action Plan provides them with the necessary assurances that the planned improvement activity will achieve the outcomes sought;

(3) Members agree that progress reports on delivery of the Action Plan are brought to future meetings of the Committee as part of the regular update on the Annual Governance Statement Action Plan.

The meeting then broke for lunch at 12.45pm and resumed at 1.15pm.
8 2016/17 QUARTER 4 CORPORATE RISK REGISTER AND RISK REFRESH

The Corporate Director – Resources and Transformation presented a report which provided members with a progress update on the 2016-17 corporate risk register for the fourth quarter to 31 March 2017 and presented an overview of both risks and opportunities for each of the Council priorities.

In addition, this report presented a summary of the Corporate Risks and Opportunities that had rolled forward into the 2017/18 register, together with the supporting rationale for changes to the 2016-17 register.

The Corporate Director informed members about the Risk Management Training and highlighted that a general risk management e-learning package for Managers had been developed and was being piloted prior to upload onto the Council Learning Zone. Thereafter a further risk management e-learning training package for elected members would be developed.

In March 2017, risk management representatives from Zurich Municipal delivered a comprehensive fraud awareness training session tailored for the Council’s Internal Audit Team.

There were currently 16 risks on the Quarter 4 corporate risk register; 11 high and 5 medium risks:

The Corporate Director said that since the previous quarter 2016/17 no new risks were identified, no risk scores were changed, and that no further risks were closed during Quarter 4. However, there was one new emerging risk was identified during Quarter 4 2016/17 in relation to the apprenticeships levy.

Comparing the current Quarter 4 2016/17 risk scores to the Quarter 4 risk scores in 2015/16 13 of these risks remained at the same score as the previous year’s Q4 period and 1 risk had increased in score - C19: Standards in secondary schools (excluding academies)

There were 11 corporate risks that had remained on the register over the last 24 months.

Members asked for an update on management of attendance. The Corporate Director explained there would be a substantive report to the next meeting in this.

One of the members raised concerns with risk – non delivery of Medium Term Financial Plan savings, and asked how members could be assured that this was being monitored. The concerns raised were about Adult Services and the complexity of managing this budget.

The Assistant Director – Finance said budget was difficult to manage especially in times of austerity and the growing demographics for the aging population within the county. She explained that there was a management board monitoring this closely.
Central Government had recognised the need for additional funding for Adult Social Care and funding received into the Better Care Fund (BCF) had been increased. However, there would still be pressure to maintain the spend in cash limited services.

Members felt it might be advantageous to look more strategically at this and asked whether the council recognised the potential risk in its entirety in relation to the aging population and the effect this could have on the whole of the council services.

The Corporate Director explained that an aging population was a cause of some of the risks on the risk register and AGREED to look at this to determine how this might be reflected more clearly in the risk register.

Members asked questions about the IT tracking tool being used to track the income of service users and the Assistant Director AGREED to investigate the queries and respond to members directly.

Members raised questions about risk C13 – Inadequate Information Governance and whether this included cyber risk. The Corporate Director said the issue of cyber risk would be a substantive item for the January 2018 meeting of the committee and that the Q1 report would include a specific risk on this matter.

Members noted that the Corporate Risk Report – Quarter 1 would be presented to the next meeting scheduled for 25 October.

RESOLVED that,

(1) Members note the content of the report, and agree that it provides sufficient assurance that the current Risk Management arrangements are both robust and effective;

(2) Members identified the aging population and the cyber risk as areas of risk for further detailed examination at future Audit & Assurance Committee meetings.

9 SENIOR INFORMATION RISK OWNER (SIRO) & INFORMATION GOVERNANCE ANNUAL REPORT 2016-17

Members had before them a report from the Corporate Director – Resources and Transformation, which provided an update relating to the responsibilities of the Cumbria County Council Senior Information Risk Owner (SIRO) and outlined activity and performance related to information governance. It provides assurance that information risks were being effectively managed; what was going well; and where improvements were required.
Whilst previously presented as two separate reports (Information Governance Annual Report and SIRO Annual Report) these had now been combined to provide a single report which outlined the new and emerging information governance considerations.

ICT security and cyber risks presented an increasing challenge to all organisations and the Council was no different. Arrangements to manage these risks were contained in the report with a summary included to list actions already undertaken and further activity planned to maintain and strengthen defences and enhance corporate resilience.

The Senior Information Risk Owner (SIRO) Annual report reflected the Council’s information governance work undertaken during 2016-17, and provided assurance that personal data was held securely; information is disseminated effectively and provided an overview of key performance indicators relating to the Council’s processing of information requests within the necessary legal frameworks.

Members asked for assurance the County Council took seriously the possible threats caused by cyber risks. The Corporate Director said the council was mindful of the possible threats and risks associated with this. This would be included in one Q1 risk report and would be a substantive item for the January 2018 meeting.

She reminded members that a substantive item would be coming to the January Audit Committee on this risk.

RESOLVED that, Members note the content of the Annual Report for 2016/17 in Appendix 1 to the report.

10 INTERNAL AUDIT ANNUAL REPORT 2016/17

(A) Internal Audit Annual Report 2016/17

The Group Audit Manager presented a report which provided a summary of the outcomes of the work of Internal Audit for 2016/17 and included the Head of Internal Audit’s opinion on the effectiveness of the Council’s arrangements for governance, risk management and internal control in accordance with the requirements of the Public Sector Internal Audit Standards (PSIAS)

Key points from internal audit’s annual report were:-

- The annual opinion of the head of internal audit: based on the work undertaken by internal audit during the year, the Group Audit Manager was able to provide Partial assurance over the effectiveness of the Council’s arrangements for governance, risk management and internal control.
- Overall, 27% of Risk Based Audits resulted in Reasonable or Substantial assurance, with 73% resulting in Partial or Limited assurance. Where
school audit visits are included in the figures, the level of Reasonable assurance was 38%.

- The work of internal audit was considered to have provided an appropriate level of coverage to provide the opinion, and there have been no threats to internal audit’s independence in the year to which this opinion related.

- Actions had been agreed in respect of individual audits. Audit work had also identified that there was scope for improvements in the corporate arrangements for operational risk management, performance management and development, approval and maintenance of policies, procedures and other guiding documents. Implementation of these actions should provide the opportunity for strengthened governance which will feed into the audit opinion for 2017/18.

The Group Audit Manager reminded members that it was management’s responsibility to establish and maintain internal control systems and to ensure that resources were properly applied, risks appropriately managed in line with acceptable tolerances and that outcomes were achieved. Management was responsible for the system of internal control and should set in place policies, procedures and checks to ensure that controls were operating effectively.

She asked members to note that in giving this opinion assurance could never be absolute and it was not possible to give complete assurance. Her opinion was based on the work undertaken by Internal Audit during the year, including the outcomes of follow up work.

The Group Audit Manager was satisfied that sufficient audit work had been undertaken to allow her to provide an opinion, and confirmed that there had been no threat to Internal Audit’s independence that would impact on the provision of the opinion.

In this instance the Group Audit Manager’s opinion was that Partial assurance could be provided over the adequacy and effectiveness of the systems for governance, risk management and internal control.

Members asked if Internal Audit encountered any difficulties closing out audit reports with management. The Group Audit Manager said that there was a healthy level of challenge over audit findings and conclusions, but that this was welcomed as part of the process for ensuring all relevant information was considered and audit reports accurately reflected the arrangements in place. The Group Audit Manager explained that Corporate Directors were asked to sign off the reports and action plans to ensure there was corporate level support for the audit process.

Members asked whether any benchmarking was carried out to compare Internal Audit approaches and assurance levels. The Group Audit Manager explained that she does some informal benchmarking of how we compare with other authorities, but that the formal benchmarking tended to focus more on inputs rather than processes and outcomes.
The Group Audit Manager assured Members that the risk based approach to internal auditing was the required approach under the Public Sector Internal Audit Standards and is appropriately focusing on how the Council’s management was assured over their systems and processes. The Assistant Director – Finance said this type of audit was the most effective use of Internal Audit resources, compared with more traditional audit, which regularly revisited systems that had not changed from one year to the next.

**RESOLVED** that, members note

1. The progress in delivering the 2016/17 audit plan and the outcomes of completed audits set out at Appendix 1;

2. The Head of Internal Audit’s opinion of Partial assurance over the adequacy and effectiveness of the council’s arrangements for governance, risk management and internal control for the year ended 31 March 2017;

3. The Head of Internal Audit’s declaration of conformance with the mandatory PSIAS;

4. The Head of Internal Audit’s declaration of Internal Audit’s independence as required by the PSIAS:

5. The outcomes of the Quality Assurance and Improvement Programme;


**B) Management Response to Internal Audit Annual Report 2016/17**

The Audit and Assurance Committee considered a report from the Corporate Director – Resources and Transformation which explained that the annual Internal Audit report was a mandatory report of the Head of Internal Audit, the purpose of which was to provide the Council with assurance over its arrangements for governance, risk management and internal control in line with the Public Sector Internal Audit Standards (PSIAS). For 2016/17 the opinion of the Group Audit Manager was of Partial Assurance.

This paper provided the Council’s management response to the annual Internal Audit Report in order to provide Members with assurance over the work already underway and planned to strengthen the arrangements in respect of the issues identified in the annual internal audit report.

The annual opinion of the Head of Internal Audit for 2016/17 was of Partial Assurance. This was based on the outcomes of completed audit work during the year where a higher proportion of audits resulted in Partial or Limited Assurance than in recent years. This reflected the risk based approach to audit, in line with Audit Standards.
In line with agreed reporting arrangements, the annual report was presented to Corporate Management Team (CMT) by the Group Audit Manager for information and discussion of the information contained within the report.

CMT had discussed the report in detail in particular the three cross-cutting themes identified in the report (operational risk management, performance management and maintenance of appropriate operational policies and procedures) which had arisen from audit reviews across services and directorates. CMT considered the actions already underway or needed to address the key issues arising from the work of internal audit.

The response was set out in Section 5 of the report and an Action Plan had been developed in response to the themes identified in the annual report. This was provided as Appendix 1 to the report and set out what management was seeking to achieve through a proportionate level of improvement activity which was either planned or has already commenced.

Members were pleased to see the reference in the response to member engagement as they felt that few members understood the audit process, especially around risk management.

RESOLVED that, Members note the management response to the annual Internal Audit report.

11 ANNUAL REVIEW OF AUDIT COMMITTEE EFFECTIVENESS 2016/17

The Assistant Director – Finance (Section 151 Officer) presented a report which provided a review of the work of the Audit and Assurance Committee against the core functions of an audit committee as defined within the CIPFA Position Statement on Audit Committees 2013.

The Audit and Assurance Committee pursued its vigorous work programme throughout 2016/17, building on its activities in recent years. The Chair and Vice Chair of the Committee continued in their respective roles throughout the period.

It is established practice that this report is presented by the Chair of the Committee, however following changes in Committee membership, the report has been prepared by the Assistant Director, Finance (S151 Officer) on behalf of the Chair.

She highlighted the following for members to note:-

- The Committee in 2016/17 continued to take a keen interest in the arrangements for effective risk management.
- The Committee oversaw the addition to the corporate risk register of an emerging risk associated with the outcome of the EU Referendum held in June 2016.
• The Committee received regular progress reports on the work of Internal Audit and noted that levels of assurance have reduced from previous years.
• The Committee approved the internal audit charter, a key document required by the Public Sector Internal Audit Standards (PSIAS), which sets out the purpose, authority and responsibility of Internal Audit and ensures its independence.
• Audit & Assurance Committee continues to receive reports and presentations from the Council’s senior management on areas where there are links with risk, governance and internal control matters.
• The Committee continued to perform its role in overseeing the Council’s approach to Treasury Management, receiving papers on changes to the Minimum Revenue Provision Policy and the draft Treasury Management Strategy for 2017/18.
• The Chair and Vice Chair received routine briefings from the Assistant Director (Finance) and senior managers in Finance during preparation of the accounts for 2015/16, and received briefings from the Assistant Director (Finance) and the Chief Executive during the year in relation to a litigation matter where the Council was the defendant.
• The Audit and Assurance Committee approved the Annual Governance Statement for 2016/16 and received regular progress reports on the action plan in relation to the significant governance issue relating to Children’s Services in 2016/17.
• The Committee has responsibility for approving the annual Statement of Accounts, and annual training is sought from officers to assist in this significant responsibility.

One of the members asked how the judgement on the effectiveness was made, and the Group Audit Manager explained that the Council was required to confirm within its Annual Governance Statement (AGS) that there were effective arrangements for fulfilling the role of an audit committee. The suggested benchmark in the guidance for preparing the AGS was the CIPFA Position Statement for Audit Committees in Local Government. The template for this report was based on the seven roles for Audit Committees set out within the CIPFA Position Statement.

The Chair asked the external auditors for a view on the effectiveness of the committee, to which the Audit Manager from Grant Thornton replied that she was assured that the report accurately reflects her observations on the work of the Committee through her attendance at its regular meetings.

RESOLVED that, members note the report and confirm the assessment of conformance with the core functions of an audit committee per the 2013 CIPFA Guidance as set out at Appendix 1 of the report.
12 INTERNAL AUDIT - MANDATORY EXTERNAL ASSESSMENT

Members had before them a report from the Assistant Director – Finance (Section 151 Officer) which explained it was a requirement of the mandatory Public Sector Internal Audit Standards (PSIAS), that all public sector internal audit functions were subject to an external assessment at least once every five years.

The PSIAS were first introduced on 1 April 2013, meaning that the first external assessment must be completed by 31 March 2018.

The PSIAS required that Audit Committees had the opportunity to discuss the assessment to assure themselves of the skills, experience and independence of the assessor.

This paper explained the arrangements that had been put in place for the assessment and sought to provide assurance over the skills, experience and independence of the appointed assessor.

The Public Sector Internal Audit Standards (PSIAS) were introduced on 1 April 2013, replacing the 2006 CIPFA Code of Practice for Internal Audit in Local Government as the relevant standards for UK public sector Internal Auditors.

It is a requirement of the PSIAS that all UK public sector Internal Audit providers are subject to an external assessment at least once every five years, with the first assessment due by 31 March 2018.

The review had been commissioned through the Chartered Institute of Internal Auditors (CIAA) and would take the form of a validated self-assessment using the CIAA’s assessment toolkit. The assessment was planned to take place during the first week in October 2017, with the assessor expecting to be on site for three days during which he would meet with the audit team and key internal clients of Internal Audit, including the Chair of Audit & Assurance Committee.

The assessment would result in a final agreed report and action plan which would be reported to the Audit & Assurance Committee in line with the expectations of the PSIAS.

RESOLVED that, members note the report and the assurances given over the expertise and independence of the external assessor.

13 GRANT THORNTON

(A) External audit update report 2016/17

The Audit Manager from Grant Thornton presented the Audit and Assurance Committee with a report on progress in delivering their responsibilities as the County Council’s external auditors.
The update included the results of the cyclical review of the IT environment. This was the first opportunity to report the findings of the IT environment review to the Committee since the meeting on 20 March 2017. The Audit Plans for Cumbria County Council and Cumbria Local Government Pension Scheme (CLGPS) were presented to the 20 March 2017 Audit and Assurance Committee. The main findings from their work would be reported in the Audit Findings Reports for Cumbria County Council and CLGPS to the 25 September 2017 Audit and Assurance Committee.

RESOLVED that, the report be received and noted.

(B) Audit Fees for 2017/18

The letter from Grant Thornton which outlined the planned audit fee for 2017/18 was considered by the Committee.

The Audit Manager from Grant Thornton confirmed that the fees would remain the same for the forthcoming year.

RESOLVED that the planned audit fee for 2017/18 be noted.

14 PORT OF WORKINGTON HARBOUR ACCOUNTS 2015/16

Members considered a report from the Assistant Director – Finance (Section 151 Officer) which presented the Port of Workington Harbour Accounts 2015/16 to the Audit & Assurance Committee for review and approval.

Grant Thornton had completed their audit work on the 2015/16 Harbour Accounts as reported in their External audit progress and update report (Agenda Item 13).

Discussions regarding the presentation of Harbour Authority accounts had been ongoing nationally for several years. The issue was initially raised by the Audit Commission in September 2013. However as a result of limited definition by the Audit Commission on the form a review of harbour authority statements should take, and as it was outside of Code of Practice, then the audit firms, including Grant Thornton, required more detailed guidance. With the demise of the Audit Commission the guidance wasn’t forthcoming and the issue lay dormant until November 2016.

In November 2016 the National Audit Office (NAO) stated that audit firms should determine their own audit approach, however they did provide supporting information to assist the auditors.

The underlying legislation that contained the reporting requirements for Harbour Authority Accounts is the Harbours Act 1964. Section 42[1] of the Act requires statutory harbour undertakings (which included local authorities that are also harbour authorities) to prepare an annual statement of accounts relating to harbour activities. Section 42[3] of the Act expressly stated that this requirement was not satisfied by the preparation of a statement of accounts that covers matters in addition to harbour activities. Meaning that the inclusion of harbour activities within a
local authority’s annual Statement of Accounts would not satisfy section 42(1) and a standalone annual statement of accounts relating to harbour activities was required.

The Port of Workington was below the £6.5m turnover Companies Act threshold. The Council had previously taken the view that management accounts presented to the Workington Harbour Board and the separate disclosure of the Port of Workington as a Traded Service within the Council’s main Statement of Accounts was sufficient to satisfy all of the above legislative requirements. Following discussions with Grant Thornton it was agreed that the Council would prepare a statement of accounts for the Port of Workington from 2015/16 onwards that included the following:

- Profit and Loss Account,
- Balance Sheet
- Accounting Policies
- Notes to the Balance Sheet
- Statement of Responsibilities

Grant Thornton would then perform a limited audit each year to provide the Council with assurance that the Accounts had been prepared on a reasonable basis and would also report, on an exception basis, any matters relating to the annual statement of accounts that they considered needed to be drawn to the Council’s attention.

This report presents the audited Port of Workington Harbour Accounts 2015/16 together with the Auditor's Report, these would be reported to the Workington Harbour Board at the meeting of 23rd October 2017.

Members asked where funding came from for capital improvements at the port and the Assistant Director confirmed this was from the County Council’s Capital Programme.

The Chair of the Audit Committee was concerned that she was being asked to approve the accounts when she had no understanding of them, or the workings of the Port. In response the Chair was assured the accounts related to 2015/16 where high level content had been included in the Council’s Audited Accounts 2015/16. In addition the Auditor had completed their audit of the Accounts. No issues had been raised. These concerns were noted.

**RESOLVED** that, members

(1) Note the contents of this report.

(2) Note that the work carried out by Grant Thornton for the Port of Workington Harbour Accounts 2015/16 is now complete as per the External audit progress and update report

(3) Approve the Port of Workington Harbour Accounts 2015/16

(4) Authorise the Assistant Director –Finance, as the Council’s Section 151 Officer to sign the 2015/16 audited accounts on behalf of the Council.
The representative from Grant Thornton left the meeting at this point.

The Assistant Director – Finance (Section 151 Officer) presented a report which provided members of the Audit & Assurance Committee with an update on the progress on the appointment of the Council’s external auditor by Public Sector Auditor Appointments Ltd (PSAA).

Take up of PSAA’s national auditor appointment scheme had been high with 483 of the 492 eligible bodies opting in.

There was a statutory deadline for the appointment of external auditors to local authorities by 31 December 2017 in preparation for the audit of the accounts for 2018/19.

On 14 August 2017, the Chief Executive and Assistant Director - Finance (S151 Officer) received formal notification of the beginning of a consultation on the proposed appointment of Grant Thornton (UK) LLP in respect of Cumbria County Council. The appointment was proposed for a period of five years starting on 1 April 2018.

The consultation on the proposed appointment lasted from 14 August to 22 September 2017. If the Council was satisfied with the proposed appointment, this must be confirmed by email to PSAA Ltd by 5.00pm on 22 September.

PSAA Ltd would consider any representations and respond by Monday 16 October 2017. If representations were accepted, Councils would be consulted on an alternative auditor appointment between 16-27 October 2017. If representations were not accepted, this would be confirmed by PSAA.

The PSAA Board would then consider all the 2018/19 appointments for approval at its meeting in December 2017, and would issue a confirmation letter.

**RESOLVED** that, members note the update on the national auditor appointment scheme and were supportive of the proposals for the appointment of Grant Thornton as the Council’s external auditor for a period of five years from 1 April 2018.

The representative from Grant Thornton returned to the meeting at this point.

The Forward Plan was noted with the following amendments:--


17 DATE & TIME OF NEXT MEETING

The next meeting of the Audit and Assurance Committee will be held on 25 September 2017 at Cumbria House, Carlisle at 10.30am

The meeting ended at 3.20 pm