

AUDIT AND ASSURANCE COMMITTEE

Minutes of a Meeting of the Audit and Assurance Committee held on Monday, 9 December 2019 at 10.30 am at Conference Room A and B, Cumbria House, Carlisle, CA1 1RD

PRESENT:

Mrs HF Carrick (Chair)

Ms C McCarron-Holmes
(Vice-Chair)
Mr LN Fisher
Mr NH Marriner

Mr GD Cook
Mr SB Collins
Mr FI Morgan

Also in Attendance:-

- Mrs J Crellin - Director of Finance (Section 151 Officer)
- Mr P Robinson - Assistant Director - Organisational Change
- Mr R McGahon - Group Audit Manager
- Mr P George - Group Finance Manager - Pensions, Investments and Insurance
- Mr M Humble - Senior Commissioning Manager-Learning Disability/Mental Health/Autism
- Ms H Kirk - Senior Risk Officer
- Mr P Turney - Interim Senior Manager - Finance
- Ms E Templeton - Advanced Assistant Accountant Apprentice
- Mr G Kelly - Engagement Lead - Grant Thornton
- Mr R Anderson - Audit Manager

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

37 APOLOGIES FOR ABSENCE

Apologies for absence were received from Mr F Cassidy

38 MEMBERSHIP

Mr F Morgan replaced Mr F Cassidy as a member of the Committee for this meeting only.

39 DISCLOSURES OF INTEREST

There were no disclosures of interest made at the meeting.

40 EXCLUSION OF PRESS AND PUBLIC

There were no items on the Agenda for which the press and public should be excluded.

41 MINUTES

RESOLVED that, the minutes of the meeting held on 17 September 2019 be agreed as a correct record and signed by the Chair.

42 DEEP DIVE RISK ANALYSIS - LEARNING DISABILITY PARTNERSHIP ARRANGEMENTS

The Deep Dive for this meeting was Learning Disability Partnership Arrangements.

The presentation was delivered by the Senior Commissioning Manager - Learning Disability/Mental Health/Autism and covered the following:

- The Risk – 3 Key Factors
 1. Uncertainty on financial resource transfer into the health and social care economy in Cumbria.
 2. A lack of availability of suitable and affordable service and support providers and limited capacity within existing service and support providers.
 3. Failure to meet statutory requirements leading to reputational damage to the Council and individuals not having their care and support needs met close to home.
- Quarter 2 Risk Rating
- Background
- Examples
- Quarter 3 Risk Rating

A member sought assurance regarding the best way to support someone who may need in-patient treatment. The Senior Commissioning Manager reported that the Edenwood NHS assessment and treatment service had 6 places to cover all of Cumbria. He explained that there was also an enhanced community model service now in place to address issues with admittance and by working to this new model, the team had prevented 12 hospital admissions that at one time would have been inevitable. The Senior Commissioning Manager assured members that if a person was assessed and needed hospital in-patient treatment then they would get it, but the concern was that in the past, people were being admitted to hospital only because there was not any other option.

A member asked to what extent new providers had embraced the 'Step-up, Step down' process and the new framework and questioned whether the team were confident with using it in the future. The Senior Commissioning Manager informed

members of the work that the team had carried out with the 32 providers currently on the additional needs Framework. A recent summit had been held with all providers which had helped to create a much more open dialogue about the Council's requirements and helped develop an understanding of provider needs. It was clarified that of the 32 providers which had now agreed to this framework, 16 of them were new to partnership arrangements with the Council.

In response to a question regarding the current risk rating the Senior Commissioning Manager assured members that one of the key objectives of the commissioning service was to build good relationships with providers based on a genuine partnership approach and ensure quality provision which in turn would further reduce the Council's exposure to risk.

Members were informed that before putting in place the additional needs Framework, the service identified an estimated 75 people who were potentially in need of some form of support. There were an estimated 30 people identified as living out of county. The Senior Commissioning Manager clarified that the wider objective of the additional needs framework would be to provide for those who genuinely presented a challenge to how they were supported and whose needs could not be met through general domiciliary care and may need more specialist support.

After a question which sought clarification about the role of local providers, members heard about 'Small Supports' a strategy which focussed on supporting local people develop their own business which would consequently help in building the market.

Discussion took place about the length of hospital stays for those admitted with additional needs. The length of stay often varied depending on the individual, it was clarified that the average stay was approximately 3 months, however a number of people remained in hospital for longer.

The Chair considered the new approach to be refreshing and suggested that when the controls were reviewed, that the Corporate Management Team had good reason for reviewing the Risk rating. She also observed that the more effective the interventions were that the County Council puts in place to provide support to individuals, the more the associated financial pressure moved from the NHS to the County Council.

The Chair thanked the Senior Commissioning Manager for the informative presentation and welcomed that controls were in place to address the risks identified.

RESOLVED that, the position be noted

43 2019/20 QUARTER 2 CORPORATE RISK REPORT

A report was considered from the Director of Finance (s151 Officer) regarding the 2019/20 Quarter 2 Corporate Risk Report. The report provided Members with a

progress update on the Council's 2019/20 corporate risks for the second quarter to 30 September 2019. The report included a proposal to separate the combined Children and Adults Safeguarding risk to provide greater clarity of the improvements being made in the area of Adults Safeguarding. As a consequence, one additional Corporate Risk had been added to the register compared to the last quarter. Overall, no risk scores had changed since the last quarter.

The Senior Risk Officer updated the members in detail on the progress made since the last quarter. This included a summary of the Corporate Risks, changes to the Corporate Risks compared with the previous quarter, new and closed off risks, rescored risks and emerging risks. She advised that the Quarter 2 risks had been reviewed by the Risk Owners Group, at Cabinet Briefing and by the Corporate Management Team. It was noted that there had been no changes to the risk scores in the last quarter at the mid-point of the year. Notable Emerging Risks in 2019/20 were explained.

Members were informed that the separation of the Safeguarding of Children and Adults into two corporate risks had been approved by the People Directorate Management Team and Corporate Management Team.

Members' attention was drawn to an administrative error in Risk 3 (Deliver a Financially Sustainable Authority) where the previous quarter risk score should have been 20 not 15. It was confirmed that there had been no change to the Risk scores in Quarter 2.

The Assistant Director - Organisational Change reported on the reasons why the risk scores relating to Information Security Arrangements and ICT Cyber Security remained higher than the end of the year target scores. Cyber risk was explained to be both a national and regional risk which was due to the potential for increased criminal and disruptive attacks. Local authorities held large volumes of sensitive personal and commercial data which if targeted, corrupt or lost, may have significant impacts on the Council's operations and business continuity arrangements. The implications of a significant data breach or security failure was outlined for the Committee. He reported on the significant progress made on this risk (including the appointment of a dedicated officer and improved ICT Firewalls and externally accredited PSN certificate) and was pleased to also report that Internal Audit had undertaken an independent review and the outcome had been a positive 'reasonable' assurance.

In terms of Data Protection, the Assistant Director - Organisational Change reported on the extensive GDPR and Information Security training provided for and taken up by officers and members and the dedicated officer responsible for this work. The risk therefore related to the likelihood of a data breach. The Assistant Director - Organisational Change reported on the number of breaches per month, explaining that the reason for data breaches was mainly due to human error. He stated that this corporate risk score should not be reduced at this time due to the small increase in the number of breaches and it was proposed that further reminders, lessons

learned and communications should be issued to staff and the score would be reviewed again in Quarter 3.

A member reported on a recent phishing email which he had received and reported to ICT but had not had a response or progress update. The member offered a suggestion for following up this type of email across the Council once one had been reported. The Assistant Director - Organisational Change undertook to ascertain the outcome of the member's email and explained the triage process within the ICT team for dealing with phishing emails.

Discussion ensued on Risk 2 - Workforce Capacity, Skills, Relationships, Safety and Wellbeing. A member highlighted that progress had not been made on absence management and figures were still high. The Assistant Director - Organisational Change reported on the recent deep dive on this undertaken by the Scrutiny Management Board and the recommendations which would be made to Cabinet in January 2020. He explained that absence management work was focussed in specific service areas all of which had Action Plans but did highlight that previous years' trends resulted in ill health cases increasing typically during the winter months. A member considered that certain long-term illnesses could lead to the recording of a number of instances of illness and called for a more appropriate method of recording long/short term illnesses. This was acknowledged by the Assistant Director - Organisational Change. He stated that a number of suggestions made by members had been implemented within the People Management Service and explained how managers were using a self-service system for recording staff absence.

A member stressed that absence management was a management wide issue and not just a 'personnel' issue. He considered it a manager's responsibility to ensure staff performed and he advocated the use of appraisals. The Assistant Director - Organisational Change concurred, explaining there was an emphasis on managing and not just monitoring performance across all services, by all managers.

The Director of Finance explained about the score for Risk 3 – Deliver a Financially Sustainable Authority. She talked about the financial uncertainty facing the Council which related to increased demand pressure for care related services in particular Children Looked After and Younger Adults with complex needs. In addition, the Council was awaiting confirmation of the Provisional Grant Settlement for next year. Future funding beyond next year remained uncertain in the absence of a spending review and information on Fair Funding, which had been discussed in previous meetings

A member highlighted that if there was a cyber-attack, this could have a huge impact on businesses and contractors. This led the Assistant Director - Organisational Change to outline the Council's importance when working with partners and ensuring supply chains were secure and robust. He stressed the importance of the business continuity and ICT disaster recovery work being progressed by the Council.

In summing up, the Chair acknowledged that the information presented to members regarding absence management at a previous meeting of the Committee had been comprehensive but did note that at the time, members had raised that there was merit in separating out long and short term absence figures. She noted the difficulty in being able to understand from the data whether absences related to a long term illness or were as a consequence of a number of individual days' absence. Consequently it was a challenge for the Committee to be able to assess the effectiveness of the controls in place. The Assistant Director - Organisational Change reported on how this request had been incorporated into Manager's absence reporting mechanisms.

RESOLVED that,

- 1 Members note the content of the Quarter 2 report, and agree that it provides sufficient assurance that the current Risk Management arrangements are both robust and effective.
- 2 Members receive the presentation on the corporate risk; Learning Disability Partnership Arrangements (Minute 42).

44 ANNUAL TREASURY MANAGEMENT STRATEGY 2020/21

A report was considered from the Director of Finance (s151 Officer) regarding the draft Treasury Management Strategy Statement. The report advised that the CIPFA Treasury Management Code and Prudential Code required the Council to determine its Treasury Strategy and Prudential Indicators on an annual basis in advance of the new financial year. The draft Strategy in Appendix 1 of the report would be presented to full Council in February 2020 for review and approval. The draft Treasury Management Strategy Statement was consistent with the 2019/20 strategy statement approved by Council in February 2019.

The Group Finance Manager - Pensions Investments and Insurance guided members through the background to the draft Treasury Management Strategy Statement. He reported on the Council's existing borrowing which was predominately from the Public Works Loan Board and that due to the increase in PWLB borrowing rates by 1% in October 2019 the Council would be reviewing all alternative options for future borrowing arrangements. He commented on the prospect for interest rates' changes due to the General Election and expected withdrawal from Europe. He advised that the forecast may change before it was presented to full Council in February 2020.

A member expressed his disappointment at the increase in PWLB borrowing rates and talked about the type of projects that other local authorities invested in such as cinemas and shopping centres. The Director of Finance (s151 Officer) reported that there had been suggestions from the sector that differential PWLB rates could be offered for different types of investment. This was expected to remain a topic of interest. She suggested that there may also be discounted rates for investment in particular types of projects.

RESOLVED that, the Audit and Assurance Committee approve in principle, the draft Treasury Management Strategy Statement 2020/21 as set out in the Appendix to the report, before the finalisation of the Strategy Statement for Council's approval in February 2020

45 INTERNAL AUDIT PROGRESS REPORT TO 31 OCTOBER 2019

A report was considered from the Group Audit Manager regarding the Internal Audit Progress report to 31 October 2019. The report provided a summary of the work of Internal Audit in the three months to 31 October 2019. The key points included that work was progressing on the reviews in the 2019/20 audit plan and it was anticipated that sufficient overall coverage would be achieved by 31 May 2020 to enable the Head of Internal Audit to provide the 2019/20 annual opinion.

The Group Audit Manager informed members of the outcomes from Final Audit Reports and on the progress of follow up audits to 31 October 2019. With regard to the two school, assurance levels had improved from limited assurance to reasonable assurance.

Internal Audit had also been involved in other work such as completing work on 6 grant claims bringing the total claims audited to 10 for the current year. The Group Audit Manager highlighted this as a growth area in their work as Government continued to provide some funding through specific grants and often required both audit and the Council's Chief Executive to sign off that funding had been spent in accordance with grant conditions. Internal Audit had also provided support and advice on the implementation of the new ADAM system.

The Group Audit Manager gave a summary of the draft reports issued to 31 October 2019, focussing on the follow up work undertaken on the ICT Strategy which when undertaken a few years earlier had been given limited assurance. Following review, this now had Reasonable Assurance. The status of internal audit work was reported, with the Group Audit Manager stating that sufficient reviews should be completed in order for him to give his Audit Opinion in 2020.

A member stated that in his experience as a school Governor, audit review outcomes may be affected by work practices in schools, commenting on the large number of policies that had to be adhered to. The Group Audit Manager explained how audits were undertaken in schools and talked about the overall summary of audits which highlighted the key audit messages which were then presented and considered by the Schools Forum.

A number of members stated that effective training for Clerks to School Governors was required. The Director of Finance (s151 Officer) undertook to report this to the Governor Support Service. She highlighted that there had to be cooperation between schools and the Council for the sharing of knowledge and training. A member talked about his own practice to identify where schools lacked expertise in order that he could be confident that when he supported a new School Governor, the skills and knowledge gap was filled.

Following a query from a member, the Director of Finance (s151 Officer) explained the rules for schools who set a deficit budget. She explained how the National Schools Funding Formula was determined and that it had implications for the financial operation of small schools in the county.

The Chair welcomed that the follow up audits were delivering improved assurance ratings and drew members' attention to the follow up work on Social Worker Recruitment and Retention. She asked if and how the Committee could help with reinforcing the importance of the implementation of agreed audit recommendations, in particular high level recommendations. The Group Audit Manager highlighted the comments made on the follow up audit by the Executive Director – People. He also highlighted that it was Departmental Management Teams' responsibility to monitor the implementation of Internal Audit's recommendations. He would be able to give a clearer picture on follow ups in the forthcoming months.

The Chair asked that where follow up audits received partial or limited assurance as a result of recommendations not being implemented what support could the Committee provide to ensure the recommendations were implemented. The Group Audit Manager commented that one option was to request a further follow up audit. The Chair commented that the Committee could ask the relevant Assistant Director / Senior Manager to provide a progress report to the Committee.

RESOLVED that, Members note the progress and the outcomes of internal audit work

46 GRANT THORNTON ITEMS

a Audit Progress Report

The Committee considered the Audit Progress Report and Sector Update from Grant Thornton. The report provided a report on progress in delivering Grant Thornton's responsibilities as Cumbria County Council's external auditors. The paper also provided a summary of emerging national issues and developments which were relevant to the Council and included a number of challenges and questions in respect of the emerging issues which the Committee could consider.

The Engagement Lead – Grant Thornton explained that an ethical issue had arisen as a member of the local Grant Thornton audit team had applied for a post in the County Council's Finance Team. He set out the implications and ethical issues before the Committee and stated that the local Grant Thornton team may be unable to work on the Council's and Pension Fund Audits. He set out the challenges and

implications when using an out of area team to perform an Audit. He advised that due to these issues, Grant Thornton may be unable to commit to the Committee's Forward Plan and deliver the County Council and Local Government Pension Scheme final Audits by 31 July 2020. A member stated that having to change an audit team as a result of potential ethical issues was normal practice.

The Chair acknowledged the implications for the Committee and the impact on the close down of the Accounts. She sought assurance that there would be no negative impact from the County Council's point of view if the accounts were produced on time but were not audited by Grant Thornton. The Engagement Lead – Grant Thornton explained that he would liaise closely with the Director of Finance (s151 Officer) on this matter.

The Engagement Lead – Grant Thornton highlighted errors in the presentation of the Council's Teacher's Pension Fund End of Year Certificate (EOYC). This related to testing undertaken by Grant Thornton. However, the audit process had not yet been completed. The auditors findings had been received by the Council and these were subject to review by the Council's team.

The Engagement Lead – Grant Thornton explained how the work undertaken had impacted on the Audit Fee which had increased from £4,900 to £8,800. The Chair welcomed that this issue had been brought to the Committee's attention.

The Director of Finance provided some background to the annual return. The return to the Teachers Pensions Agency was summarised as being £25m worth of employees and employers contributions for 2018/19. The Senior Manager - Accountancy (Deputy S151 Officer) attended the meeting to provide a detailed explanation to the Committee of the work the team had undertaken to respond to the auditors' findings. He explained that a contract was not in place between the pension provider and the County Council (it was with schools and the provider) but he confirmed that work would take place with the provider to rectify the issue for 2020. He advised that this had been a data returns issue. He explained his testing process in detail and confirmed that the provider had been asked for the reasons for the errors and these would be provided shortly as the provider was undergoing a move of premises. He confirmed that as part of the tender in the new framework for the pension provider contract, the County Council would be stating its expectations in order to assure this would not happen again.

The Director of Finance (s151 Officer) explained how a mathematical calculation could be undertaken on a monthly basis, however the incorrect information had been received during the end of year financial process so this would not have identified the errors. However, in future, questions would be asked during the year. She acknowledged that lessons had been learned from this and she queried whether it would have been reasonable for the Finance Team to have identified the issue, however the monthly return had not included the incorrect information present in the year end return.

The Engagement Lead – Grant Thornton emphasised that it was important to focus on the return and ensure that third part data was correct. He was encouraged by the

assurances that the Director of Finance (s151 Officer) had put in place. He would wait to get the formal response from the Director of Finance (s151 Officer) and this would be included in Grant Thornton's qualification. This would then be factored into Grant Thornton's report planning for 2020.

The Director of Finance (s151 Officer) highlighted that there had been a low number of errors in over two thousand entries. She did not consider the errors to be a material matter.

A member expressed his disappointment that the provider had changed to a complex system without trialling a parallel run and welcomed that assurances would be sought during the tendering process. It was highlighted by a member that payroll data was received in schools after staff had been paid instead of in advance when errors could be picked up.

The Chair, in noting that this issue related to a third party, thanked Finance Officers for explaining how reasonable it would have been for the Committee to have been aware of the provider's controls, and the checks and balances that are available. The Chair asked for an update from the Auditor at the March Committee following the finalisation of the End of Year Certificate.

The Engagement Lead – Grant Thornton reported on the Audit Fees and explained that an expert valuer for property, plant and equipment had been appointed at Grant Thornton. He explained that due to an increase in the complexity of Local Government financial transactions and financial reporting, additional audit work would be required and this would be reflected in increased fees.

RESOLVED that,

- 1 the position be noted.
- 2 an update from the Auditor be given at the March 2020 Audit and Assurance Committee meeting following the finalisation of the End of Year Certificate.

47 FORWARD PLAN - AUDIT AND ASSURANCE COMMITTEE

The Committee's Forward Plan was considered. Mr Kelly reiterated that Grant Thornton's reporting timetable may need to be amended. County Council officers would be advised of any changes in due course and would work together on the submission of reports to the Committee.

The Director of Finance (s151 Officer) stated that the Chair of the Committee would be presenting the Minutes of the Committee meeting which signed off the Annual Accounts (usually the July meeting) to full Council so any changes to the timetable would need to be known in advance of the meeting.

48 DATE AND TIME OF NEXT MEETING

The Chair thanked officers from Finance, Grant Thornton and Democratic Services for their support to the Committee.

The next meeting of the Committee will be held on 17 March 2020.

The meeting ended at 1.25 pm

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