

---

AUDIT COMMITTEE25 JUNE 2015

Present:- Councillor A D Coley (Chairman), Councillor C W Griffiths (Vice-Chairman), Councillor J B Chapman.

In Attendance:- Finance and Procurement Manager (Richard Barrett), Audit and Governance Manager (Steve Blake), and Senior Democratic Services Officer (Ian Ford)

Also in Attendance:- Chris Hewitt (Ernst & Young – External Auditor)

(7.30 p.m. - 8.26 p.m.)  
-----

1.. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies for absence were submitted on behalf of Councillor Broderick. It was noted that Councillor Poonian was not in attendance.

2. MINUTES OF THE LAST MEETING HELD ON THURSDAY 19 MARCH 2015

The minutes of the meeting of the Committee held on 19 March 2015 were approved as a correct record and signed by the Chairman.

3. DECLARATIONS OF INTEREST

There were none on this occasion.

4. REPORT ON INTERNAL AUDIT - MARCH 2015 TO MAY 2015, ANNUAL REPORT OF THE AUDIT AND GOVERNANCE MANAGER 2014/15 AND ANNUAL REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT

There was submitted a report by the Council's Audit and Governance Manager which provided a periodic report on the Internal Audit function for the period March 2015 to May 2015; his Annual Report for 2014/15 and the annual review of the effectiveness of the system of internal audit as required in order to comply with legislative requirements and best practice.

REPORT ON INTERNAL AUDIT – MARCH TO MAY 2015

The Audit and Governance Manager (Steve Blake) highlighted the following matters:

(1) Public Sector Internal Audit Standards

A self-assessment against the Standards had been undertaken during 2014/15 and subsequent progress had been made in addressing issues of potential partial or non-conformance with the standards. The Standards required that a Quality Assurance and Improvement Programme (QAIP) be produced and presented to the Audit Committee. The QAIP, updated to reflect only issues outstanding at this time, was included as Appendix A to the Report of the Audit and Governance Manager.

Whilst the Standards provided a framework of requirements that demonstrated compliance, the Standards included a mechanism for disclosure of non-conformance where it was not appropriate, or practical, to follow the Standards as written. However, it was necessary to consider the aims of the specific Standards in question and to deliver an alternate

approach that fitted the spirit of those standards. It was a requirement that the Committee's attention was drawn to such issues.

The Standards included the following relating to formal appraisals of the Audit and Governance Manager where an alternate approach was considered appropriate:

#### Standard 1110 Organisational Independence

The Chief Executive undertakes, countersigns, contributes feedback to or reviews the performance appraisal of the Audit and Governance Manager.

#### Comment

Within the Council's appraisal scheme, the responsibility for undertaking appraisals of the performance of the Audit and Governance Manager is delegated to the Finance and Procurement Manager as line manager. The scheme allows for cascade of corporate issues / targets from the Chief Executive through the organisational structure to appropriate managers.

The Chief Executive is able to make comment regarding the performance of the Audit and Governance Manager, or the Internal Audit function, either directly or through the management structure at any time.

#### Proposed Solution

That the existing arrangements continue, as they provide the opportunity for independent input regarding performance as and when necessary, without the need for direct involvement at each appraisal.

#### Standard 1110 Organisational Independence

Feedback is sought from the chair of the Audit Committee for the Audit and Governance Manager's performance appraisal. The Audit Committee has responsibility for receiving reports from the Audit and Governance Manager on the operation of the Internal Audit function. However the Committee does not have day to day responsibility for the operation of the Internal Audit function.

The arrangements for the Audit and Governance Manager's appraisals are as above.

The Chairman of the Audit Committee, and the Committee as a whole, are able to raise issues if they so wish regarding the performance of the Audit and Governance Manager, or the Internal Audit function, with the Audit and Governance Manager, the Finance and Procurement Manager or Senior Management at any time.

#### Proposed Solution

That the existing arrangements continue, as they provide the opportunity for independent input regarding performance as and when necessary, without the need for direct involvement at each appraisal.

The Committee considered and endorsed the proposed solutions.

#### (2) Internal Audit Plan 2014/15 Progress

As at 31st March 2015 the equivalent of 71% of the 2014/15 Plan had been completed. As had been reported during the year, the performance in 2014/15 had been affected by

vacancies, new staff training and preparatory work regarding migration to a new computer system. The Plan had been subject to adjustment during the year and a number of audits had been deferred to 2015/16 where it was no longer timely to undertake an audit in 2014/15, those being deferred without replacement to reflect the Internal Audit resources available.

The Audit and Governance Manager's Annual Report identified that the effect of this did not impact materially on the forming of an overall opinion on the Council's Internal Control environment taking into account the results of the 2014/15 audits subsequently completed in the early part of 2015/16.

### (3) Internal Audit Plan 2015/16 Progress

The Internal Audit function was currently implementing a new computer system which was expected to go live in late summer. Due to differences in the database structures between the old and new systems, action was currently being taken to keep the number of audits in progress or under preparation to a minimum, but balancing the need to deliver the overall audit plan by the end of 2015/16.

### (4) Outcomes of Internal Audit Work

The Standards required the Audit and Governance Manager to report to the Audit Committee on the outcomes of internal audit work undertaken. 17 Internal Audit reports relating to the 2014/15 Plan had been issued since the last report to this Committee, of which 7 had achieved a "Substantial Assurance" and 10 had achieved an "Adequate Assurance".

The audits undertaken in the period included completion of follow up work regarding Housing Rents, Information Management and Parking Services where the previous audit on each activity had identified improvement required. In each instance the assurance given as a result of the follow up audit had been either Substantial or Adequate, which indicated that appropriate improvements had been successfully implemented.

### (5) Management Response to Internal Audit Reports

There were processes in place to track action taken regarding issues raised in Internal Audit reports and to seek assurance that appropriate corrective action had been taken, with follow up work being undertaken where necessary. At this time there were no high severity issues that were overdue.

## ANNUAL REPORT OF THE AUDIT AND GOVERNANCE MANAGER 2014/15

### (1) Opinion on the Overall Adequacy and Effectiveness of the Council's Internal Control Environment

The Internal Audit function completed 31 audits during the year, and a further 13 2014/15 audits had been completed by May 2015. For the audits completed, Assurance had been classified as: -

| Assurance                        | Number of Audits |    |
|----------------------------------|------------------|----|
| Substantial                      | 14               |    |
| Adequate                         |                  | 27 |
| Improvement Required             | 3                |    |
| Significant Improvement Required | 0                |    |

This was a substantial improvement on the previous year. Taking into account the issues identified in the audits included in the table above and listed in Appendix B to the Report of

the Audit and Governance Manager and reviews by other assurance providers, it was possible to provide reasonable assurance that the systems of internal control were generally operating adequately and effectively.

The result of each audit completed had been included in periodic reports produced during the year, and the Committee's attention had been drawn to any significant issues where the level of Assurance had been classified as Improvement Required. Whilst there had been audits during the year given this level of Assurance, the number at this level was low. No audits had come close to being classified Significant Improvement Required.

## (2) Qualification to the Opinion

The opinion given above had been based upon the level of Internal Audit activity that it proved possible to deliver with the resources available during the year. It was not possible to fully complete the planned work during the year, as detailed elsewhere in this report, although all key audits had been undertaken or were in progress at the year-end. In forming an opinion, issues identified, but not reported until the 2015/16 plan year had been taken into account. The level of coverage achieved was considered sufficient to be able to provide the assurance required.

## (3) Summary of Internal Audit Work undertaken to formulate the Opinion and reliance placed on the work by other Assurance Bodies

The audit plan for 2014/15, in addition to assurance work on functions and systems, had included some areas of focussed audit activity: -

- The Computer Audit element of the Plan had been undertaken in house. The number of audits undertaken was less than had originally been planned, but the two audits deferred related to on-going projects where during the year it became apparent that it would be more appropriate if the audit coverage planned be undertaken in 2015/16.
- Planned audit work regarding Major Council Projects had either been incorporated into the relevant assurance audits scheduled, or included as stand alone audits. The largest of those projects was the Coast Protection scheme, and the audit planned for 2014/15 was in progress at the time of preparing the report. The result of this audit would now form part of the opinion to be given for 2015/16.
- No stand alone Proactive Anti-Fraud Audits were undertaken, work undertaken being embedded in assurance audits.
- The Internal Audit function undertook unscheduled investigations and ad hoc audit work as and when required. The Internal Audit function had not involved in any unscheduled assignments of this type during the year.

In accordance with best practice and the requirements of the Public Sector Internal Audit Standards, the 2014/15 Plan included arrangements for the follow up of issues found at previous audits. This took the form of: -

- Separate follow up audits and embedded work within assurance audits. In those cases any outstanding issues were formally reported to management, with any significant issues drawn to the attention of the Committee.
- Action Tracking – monthly reminders being issued, and responses verified by evidence where it was appropriate to do so.

The Internal Audit function had also provided advice and assistance to functions of the Council upon request, and following audits, as appropriate during the year.

Upon completion of each audit a draft report was issued to the appropriate Corporate Director / Head of Department, containing details of any findings requiring addressing that had been identified. Subsequent discussions were then held with appropriate senior

managers and final reports issued, which included detail of agreed actions to resolve the issues identified. There were no instances, for the reports issued during 2014/15, where a satisfactory action had not been identified and agreed.

No specific reliance had been needed to be placed upon the work of any other assurance provider in lieu of internal audit coverage during the year. There was a requirement for the Audit and Governance Manager to take account in forming his annual opinion on the overall adequacy and effectiveness of the control environment, of the assurance given by other providers as well as directly by the Internal Audit function.

#### (4) Issues relevant to the preparation of the Annual Governance Statement

No issues had been identified that are relevant to the preparation of the Annual Governance Statement.

#### (5) Performance of the Internal Audit Function

The performance measures used during 2014/15 had been as follows: -

##### Performance Measure

Actual 2014/15 Actual 2013/14 Actual 2012/13 Actual 2011/12 Actual 2010/11

Percentage of Audit Plan Completed

71% \* 94% 91% 81% 86%

Percentage of Satisfactory Responses to Satisfaction Surveys Issued with Final Audit Reports 96% 100% 96% 98% 98%

\*At the time of producing the report 85% of the 2014/15 plan had been completed

The quality of work on each audit undertaken had been reviewed, and audits were not considered complete and the reports issued until any quality issues had been addressed.

#### (6) Compliance with the Public Sector Internal Audit Standards

The Public Sector Internal Audit Standards had been introduced from 1st April 2013. Progress updates were reported to the Committee during the year, on the work being undertaken to demonstrate conformance with the requirements of the Standards. At 31st March 2015 there had remained some work outstanding before consideration could be given to submitting the function to the external assessment required by the standard. Until that external assessment had been undertaken successfully, the Internal Audit function could not be considered fully compliant with the Standards. There were no significant issues of being in this position in the short term, the standards requiring the first external assessment by 2018.

The Internal Audit function was currently implementing a new computer system, and the development of the database and associated processes provided an opportunity to further integrate and embed features that would aid in demonstrating compliance with the Standards. The short term capacity constraints imposed by accommodating the computer system implementation process would make consideration of external assessment difficult at this time.

#### ANNUAL REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT

The review had been undertaken in accordance with Guidance issued by CIPFA in 2009. Whilst three of the four key elements in the Guidance had been fully met, the fourth was currently only partially met due to the standards applicable for the Internal Audit function. The three key elements of the Guidance that had been fully met were The Risk Management System; the Assurance Gained over Controls; and the Adequacy and Effectiveness of Remedial Action. The fourth, the Operation of the Audit Committee and

Internal audit to current Codes and Standards had not been fully met as the external assessment had not yet taken place.

Having considered and discussed the comprehensive report it was RESOLVED that the contents of the report be noted.

5. ANNUAL GOVERNANCE STATEMENT 2014/15 AND CODE OF CORPORATE GOVERNANCE

There was submitted a report by the Council's Corporate Director (Corporate Services) which sought approval of the Annual Governance Statement for 2014/15 and an updated Code of Corporate Governance.

It was reported that the Council had previously approved and adopted a Code of Corporate Governance, which was consistent with the principles of the CIPFA / SOLACE Framework Delivering Good Governance in Local Government, along with an update published in December 2012 which had been taken into account in preparing the Annual Governance Statement.

The Committee was informed that the Annual Governance Statement explained how the Council complied with the Code of Corporate Governance and also demonstrated how it met the requirements of Regulation 4 of the Accounts and Audit Regulations 2011 which required relevant bodies to conduct a review at least once a year of the effectiveness of its system of internal control.

The Annual Governance Statement for 2014/15 was attached as Appendix A to item A.2 of the Report of the Corporate Director (Corporate services) and was submitted for approval by the Committee, following which it must be signed by the Chief Executive and Leader of the Council and appended to the Statement of Accounts.

The Committee was made aware that the Chief Executive and Leader of the Council were required to be advised of the implications of the result of the annual review of the governance framework and that actions were in place to address any weaknesses. In this respect, the Governance Framework in place for 2014/15 was robust with improvements made during the year, although a number of items had been identified for progressing in 2015/16. To monitor progress, those improvement actions would be reported to Members as appropriate.

Members were informed that, in terms of the actual Code of Corporate Governance itself, the Code had not been updated during 2014/15, it being considered practical to defer the update until the review of the Council's Constitution had been completed. This had been brought to the attention of the Audit Committee at the time. The 2012/13 Code had remained live over that period, but as the review of the Constitution was now complete, the Code has now been updated, and was attached at Appendix B to the aforementioned report.

The Committee was also informed that CIPFA / Solace were currently reviewing the Framework for Delivering Good Governance in Local Government, but that a revised framework had yet to be published. Following publication the Code of Corporate Governance would be revisited to identify any changes required, and subsequent years' Annual Governance Statements would also reflect the new guidance. Any changes required would be reported to a future meeting of the Committee.

Having considered and discussed the report it was:

RESOLVED that

(a) the Annual Governance Statement 2014/15 be approved, in principle, subject to the

outcome of the external audit process.

(b) subject to (a) above, the Chief Executive and the Leader of the Council be advised of the outcome of the annual review and be authorised to sign the Annual Governance Statement 2014/15, as set out in Appendix A to item A.2 of the Report of the Corporate Director (Corporate Services); and

(c) the Code of Corporate Governance, as set out in Appendix B to item A.2 of the Report of the Corporate Director (Corporate Services), be approved.

6. CORPORATE RISK UPDATE

There was submitted a report by the Council's Corporate Director (Corporate Services), which presented to the Committee an updated Corporate Risk Register.

It was reported that the Corporate Risk Register was regularly updated and presented to the Committee every six months.

Members were informed that no new risks had been identified and added to the Register and no risks had been removed from the Register. Two risks had been amended, namely Risk 2e (which had previously referred to the refurbishment works at Dovercourt Pool which had been completed and which had been amended to refer to the subsequent project for Frinton & Walton Pool) and Risk 3a which had been amended to only refer to Member conduct as staff were subject to different mechanisms. One risk score had been amended, namely, Risk 2a Coastal Defence Scheme – Unforeseen expenditure/delivery, where the risk score had been reduced from 20 to 10 to reflect progress made and the completion of works to the areas of seawall at greatest risk of failure.

Having considered and discussed the report it was RESOLVED that the current Corporate Risk Register be noted.

7. TABLE OF OUTSTANDING ISSUES.

There was submitted a report by the Council's Corporate Director (Corporate Services) which presented to Members the progress against outstanding actions identified by the Committee.

It was reported that there were no significant issues to bring to the attention of the Committee, with updates provided against individual items, as set out in Appendix A to item A.4 of the Report of the Corporate Director (Corporate Services), or elsewhere on the agenda where appropriate.

The Committee also had before it for its information the External Auditor's Fee letter relating to 2015/16. This highlighted a 2015/16 proposed fee that was significantly lower than 2014/15, which reflected the on-going reduction in fees seen over the last few years. The 2015/16 budget was £86,840 which was sufficient to meet the external audit fees of £75,087 and allow for the cost of additional work that may be required outside of the basic fee.

Having discussed the contents of the report it was:

RESOLVED that the progress made against the Table of Outstanding Issues be noted.

8. ITEMS SCHEDULED FOR THE NEXT MEETING OF THE COMMITTEE IN SEPTEMBER 2015

The Committee noted that the date for its next meeting was Thursday 24 September 2015

commencing at 7.30 p.m. in the Council Chamber, in the Council Offices, Thorpe Road, Weeley.

It was reported that items currently scheduled for that meeting included:

1. Annual Governance Report 2014/15 (includes Statement of Accounts);
2. Internal Audit Regular Monitoring Report; and
3. Table of Outstanding Issues (including update against External Audit Recommendations and obtaining the views of External Audit on the effectiveness of the Committee).

The Committee was informed that the Council's Fraud and Corruption Strategy, Benefit Security Strategy and Prosecution Policy would need to be updated following the transfer of statutory responsibilities from the Council to the Department of Work and Pensions. It was agreed that potential risks around the transference of data and outstanding investigations would need to be carefully managed.

9. ANNUAL GOVERNANCE STATEMENT 2010/11

The Committee gave consideration to the Annual Governance Statement for 2010/11 presented for their approval and were advised of minor updates to be made to the Code of Corporate Governance for 2011.

It was moved by Councillor Talbot, seconded by Councillor Challinor and:-

RESOLVED – (a) That the Annual Governance Statement be approved.

(b) That the Chief Executive and Leader of the Council be advised of the outcome of the review and authorised to sign the Annual Governance Statement set out in the Appendix to item A.7 of the report of the Head of Legal Services and Monitoring Officer.

10. MEMBER TRAINING

At the request of the Committee the Head of Financial Services undertook to research possible external training options for Members. It was suggested that training could possibly be undertaken in conjunction with other Authorities in the area.

11. ITEMS SCHEDULED FOR THE NEXT MEETING OF THE COMMITTEE IN JUNE 2015

The Committee noted that the date for its next meeting was Thursday 25 June 2015 commencing at 7.30 p.m. in the Council Chamber, in the Council Offices, Thorpe Road, Weeley.

It was reported that items currently scheduled for that meeting included:

- 1) Annual Report of the Head of Internal Audit and Annual Review of Effectiveness of System of Internal Control
- 2) Internal Audit Regular Monitoring Report
- 3) Annual Governance Statement (including review of the Council's Code of Corporate Governance)
- 4) Corporate Risk Register (six monthly review)
- 5) Update on use of S106 Funding
- 6) Review / Update in respect of Housing Development in the Tendring District
- 7) Table of Outstanding Issues (including update against External Audit Recommendations)

The Chairman thanked the Officers and Chris Hewitt for all the help, advice and assistance that they had given him and the Committee. He also thanked the Members of the Committee for their input and commitment to the work of the Committee.

12. ITEMS FOR THE NEXT MEETING OF THE AUDIT COMMITTEE

It was noted that the following matters would be brought before the Audit Committee for consideration at its next meeting, to be held on Thursday 12 December 2013:

- Internal Audit Monitoring Report
- Annual Audit Letter 2012/13
- External Audit – Certification of Claims and Returns
- Risk Strategy and Register
- Table of Outstanding Issues

Chairman