

AUDIT COMMITTEE

25 SEPTEMBER 2014

REPORT OF CORPORATE DIRECTOR (CORPORATE SERVICES)

A.2 AUDIT COMMITTEE – TABLE OF OUTSTANDING ISSUES

(Report prepared by Richard Barrett)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To present to the Committee the progress against outstanding actions identified by the Committee.

EXECUTIVE SUMMARY

- The Table of Outstanding Issues has been reviewed and updated since it was last considered by the Committee at its 26 June 2014 meeting.
- To date there are no significant issues to bring to the attention of the Committee, with updates provided against individual items set out in **Appendix A** or elsewhere on the agenda.
- Updates against actions identified within the Annual Governance Statement 2013/14 are set out in **Appendix B** with no significant issues to highlight at the present time.
- Changes to the delegations within the Council's Housing Benefit Security Strategy and Housing Benefit Prosecution Policy are also set out in response to a staff reorganisation.
- In response to the previous request of the Committee to maintain a focus on governance arrangements in connection with the Council's insurance cover and associated risks, it is proposed on putting in place a separate meeting of the Committee in October 2014 to take forward a property risk 'audit' following a recent change in the Council's property insurers.

RECOMMENDATION(S)

That the Committee:

- a) Reviews and notes the progress against the outstanding issues.**
- b) Approves amendments to the Housing Benefit Security Strategy and Prosecution Policy to reflect an organisational change, with all delegations previously held by the Finance and Procurement Manager being transferred to the Revenues and Benefits Manager.**

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

The existence of sound governance, internal control and financial management practices and procedures are essential to the delivery of Corporate priorities supported by effective management and forward planning within this overall framework.

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

There are no significant financial implications associated with monitoring and implementation of agreed actions or responses. If additional resources are required to deliver an agreed action then appropriate steps will be taken including any necessary reporting requirements.

For information the External Auditors Fee letter relating to 2014/15 is attached. This highlights a 2014/15 proposed fee broadly in line with amount for 2013/14 but excludes any charge for additional work that the Council may request. The 2014/15 budget is £96,840 which is sufficient to meet the initial external audit fees of £96,467 which includes the code audit fee and the charge for the certification of claims and returns.

Risk

The Table of Outstanding Issues is in itself a response to potential risk exposure with further activity highlighted to address matters raised by the Audit Committee.

LEGAL

There are no direct legal implications associated with this report.

OTHER IMPLICATIONS

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.

Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.

This report does not have a direct impact although such issues could feature in future recommendations and actions. Any actions that may have an impact will be considered and appropriate steps taken to address any issues that may arise.

PART 3 – SUPPORTING INFORMATION

TABLE OF OUTSTANDING ISSUES

A Table of Outstanding Issues is maintained and reported to each meeting of the Committee. This approach enables the Committee to effectively monitor progress against issues and items that form part of its governance responsibilities.

An updated Table of Outstanding Issues is set out in **Appendix A**. An update against actions relating to the Annual Governance Statement 2013/14 is set out separately in **Appendix B**.

Update Against Issues Raised

Any actions identified by the Committee at its last meeting have now been included where appropriate.

Updates against items either appear as separate items elsewhere on the agenda or set out within the Appendices, with work scheduled or remaining in progress against all items.

Other Matters for Consideration

Housing Benefit Security Strategy and Housing Benefit Prosecution Policy

The above sets out the Council's approach to combating fraud and error associated with the payment of benefit including when a prosecution will be pursued as an alternative to other available sanctions. These documents were last reviewed by the Committee in 2012 and based on the existing cyclical review process, these are not due to be presented to the Committee until 2015.

Although this review timetable is still being followed and therefore updated documents will be presented to the Committee next year, it is necessary to make some minor changes to reflect a reorganisation within the relevant services.

The Council's Fraud investigation team have transferred from Finance and Procurement Services to the Revenues and Benefits Service on a secondment basis. Although the long term arrangements are subject to further consideration / agreement, from a practical perspective it would be useful to delegate any responsibilities previously held by the Finance and Procurement Manager to the Revenues and Benefits Manager. The delegations primarily relate to the decision to prosecute or not, but would remain set against the strict criteria laid out in the Prosecution Policy that remains unchanged. Both posts operate at the same level of seniority within the Council so this would not 'dilute' the level of authority / responsibility for such an important element of the work of the fraud team. If the secondment ceases at any time or is not subject to formal approval on a permanent basis then the delegated responsibilities would revert back to the Finance and Procurement Manager.

Therefore a recommendation has been included above to seek approval from the Committee to make the necessary changes to officer delegations to reflect the current staffing arrangements.

Insurance Claims Review

As part of the training session undertaken by members on the 12 May 2014, the Council's insurers provided members with information on both risk management and claims experiences in the context of the overall responsibilities of the Committee.

It was identified that the Committee wished to take this matter forward with a focus on how they promote good governance and their role in providing assurance on the Council's activities that could affect the Council's claims history and therefore the cost of future premiums. During the insurance renewal process for 2014, the Council's property insurance requirements are now being provided by an alternative insurance company. The new company have offered to undertake a property 'audit' to identify potential risks etc. following which the Council can determine any necessary actions. This work would fit with the Committee's original request to focus on insurance arrangements from a good governance perspective and therefore provides a timely opportunity for the Audit Committee to oversee this piece of work. In consultation with the Audit Committee Chairman, it is proposed on putting in place a separate meeting in mid to late October 2014 where a representative from the Council's new property insurers will be in attendance to introduce the work that will be undertaken and answer any questions the Committee may have.

Code of Corporate Governance – Work in updating this document remains in progress. Given the current timing associated with the separate review of the Council's Constitution which forms the backcloth to the content of the Code of Corporate Governance, it remains

practical to defer this item to enable any changes to the Constitution to be reflected in the revised code where necessary. It is important to note that the existing Code of Corporate Governance still remains 'live' and will remain so until a revised document is presented and approved by the Audit Committee.

BACKGROUND PAPERS FOR THE DECISION

None

APPENDICES

Appendix A – Table of Outstanding Issues (Sep 2014) – General.

Appendix B - Table of Outstanding Issues (Sep 2014) - Annual Governance Statement Actions

Attached - External Audit Annual Fee Letter 2014/15

AUDIT COMMITTEE - Table of Outstanding Issues (September 2014)

GENERAL					
Governance Area	Activity / Subject	Recommendation / Issue	Lead Service	Progress / Comments	Status - Target Date
Audit Committee Effectiveness	Periodic review of the operation and effectiveness of the Audit Committee.	<p>At its 26 September 2013 meeting the Committee considered a formal update against outstanding actions following the on-going monitoring of the Committee's effectiveness.</p> <p>The following two items remain in progress along with the wider request to review and determine future training opportunities for the Committee which could encompass all other members and officers:</p> <p>1) Committee's input into the External Audit Programme 2) The Committee periodically obtaining the views of External Audit on the work and effectiveness of the Committee.</p>	Finance and Procurement Manager	<p>In respect of item 1), the Local Audit and Accountability Act, which has recently come into force sets out a number of arrangements primarily around the appointment and conduct of local auditors. Therefore the role of the Committee in relation to the performance of the external auditor and the input into work programmes will form part of the associated work when this Council appoints its own external auditors which will not be until after 2017.</p> <p>In respect of item 2), the External Auditors are scheduled to provide a presentation to members directly at the meeting which will include the effectiveness of an Audit Committee. Following this approach, the practicality of obtaining the views of the Council's External Auditors on a regular basis will be reviewed.</p>	On-going
General Governance	Outcomes from work of Internal Audit	<p>The Audit Committee have maintained a watching brief on a range of planning issues such as enforcement and S106 agreements. The relevant Portfolio Holder and a representative from the service have attended previous Committee's to provide general updates. The latest update was provided to the Committee at its June 2014 meeting following which it resolved:</p> <p>(a) an extra column/data field be added to the Section 106 database that would highlight where individual Section 106 agreements had a related Essex County Council Section 106 agreement; and</p> <p>(b) the Section 106 Agreements database remains on the Table of Outstanding Issues.</p>	Head of Planning Services	<p>In respect of a), a practical response to achieve the aim of providing a joined up approach to the use of S106 money is currently being explored.</p> <p>In respect of b) this remains as a 'live' item on the Committee's table of Outstanding Issues as further updates will be requested in future.</p>	On-going
External Audit	Future Change	<p>At its meeting on 13 December 2012, the Audit Committee resolved:</p> <p><i>That the local procurement of external audit services along with any impact on Parish/Town Councils is added to the Table of Outstanding Issues for future consideration.</i></p>	Finance and Procurement Manager	Under current proposals, Local Authorities will be able to appoint their own external auditors from 2017 (subject to the potential extension of existing arrangements). Independence, quality and governance arrangements will form part of any procurement decision which will be undertaken within the necessary timescales to be in a position to confirm appointment when applicable.	2016/17

Control Environment	Outcomes from work of Internal Audit	At its meeting on the 12 December 2013, the Committee raised concerns about cash handling processes within the Council and specifically identified car parking income as an area they would like to maintain a watching brief'.	Finance and Procurement Manager	The Internal Audit Monitoring report presented to the Committee in June 2014 provided the outcomes from recent Internal Work, with a representative from Parking Services attending this meeting of the Committee to provide further details / general update.	Sep-14
General Governance	Key Projects / Priorities	<p>The Committee have previously discussed regeneration issues and projects which included requests for representatives from the service to attend meetings along with updates on key projects.</p> <p>At their June 2014 meeting the Committee also requested that: <i>regular updates be presented to the Committee on any emerging governance and risk management issues in relation to the Council's 'big ticket' projects such as the coastal defence scheme, the Transforming Tendring project and the replacement of the cremators at the Weeley Crematorium.</i></p> <p>The latest request by the Committee has now superseded the previous focus on regeneration and therefore the specific item relating to regeneration has now been removed from the Table of Outstanding Issues. Key projects including those associated with regeneration can now be captured within this item.</p>	Finance and Procurement Manager	<p>In respect of updates on key projects, there is overlap with items identified within the Annual Governance Statement that was presented to the June 2014 meeting of the Committee. At the present time further details are therefore included within Appendix B.</p> <p>In respect of emerging governance and risk management issues, there is nothing to draw to the attention of the Committee at the present time and a risk management update is planned on being presented to the Committee in December.</p>	On-going
Anti Fraud and Corruption	Benefit Fraud Sanctions / Performance	At its June 2014 meeting, the Committee considered information relating to the performance of the Council's Fraud Investigation service along with a sample of high value cases. The Committee noted that two cases of identified fraud did not conclude with a sanction being imposed and the Committee asked why this was the case.	Finance and Procurement Manager	The two cases noted by the Committee where no sanction had been imposed was due to significant health issues of the claimants being taken into consideration as part of finalising the investigation, which is in accordance with the Council's Prosecution Policy.	Completed
General Governance	Communications and Website	Following discussion, the Finance and Procurement Manager undertook to raise at Management Team the issue of the level of awareness amongst Officers of the corporate response time to Members' and the public's correspondence and also the amount of out-of-date information on the Council's website.	Corporate Director (Corporate Services)	<p>This issue has been discussed at a Management Team level to raise the necessary awareness of the response times the Council aims to achieve although it is recognised that it is not always possible to guarantee that they will be met especially during busy periods.</p> <p>In respect of the Council's website, this issue is being raised at the quarterly website editors meetings to limit where possible the instances of out of date information on the website.</p>	Completed

RECOMMENDATIONS FROM EXTERNAL AUDIT					
Governance Area	Activity / Subject	Recommendation / Issue	Lead Service	Progress / Comments	Status - Target Date
External Audit Review	Claims and Returns	<p>At its meeting on 20 March 2014, the Committee considered a report from the External Auditor relating the certification of claims and returns for 2012/13. The External Auditor identified the following recommendation:</p> <p><i>Housing and Council Tax Benefits Subsidy claim (Medium Priority):</i> <i>Ensure that appropriate training is developed and delivered to staff to ensure that:</i></p> <p><i>All staff understand how income should be recorded within Northgate to prevent incorrect award of benefit.</i></p> <p><i>The importance of correct dates at the time of data entry.</i></p>	Corporate Director (Life Opportunities)	Appropriate training is being delivered within the service on an on-going basis.	On-going

AUDIT COMMITTEE - Table of Outstanding Issues (September 2014)

ANNUAL GOVERNANCE STATEMENT ACTIONS

ANNUAL GOVERNANCE STATEMENT ACTIONS		
Governance Issue	Action	Current Position / Update
Financial Resilience	Via the Financial Strategy process, continue to maintain a strong and robust approach to identifying savings and respond to new or additional burdens against the backcloth of the potential for further cuts in Government funding.	The initial financial baseline for 2015/16 was considered by Cabinet on 5 September 2014. The delivery of the necessary savings are already underway supported by savings identified in 2014/15 as part of the budget monitoring process along with the work of the Corporate Management Committee who are seeking to hold a Member workshop in early October to identify strands of work to take forward over the coming months.
Council's Constitution	Complete the comprehensive review of the Council's Constitution to ensure that it is fit for the future, including consideration of social, environmental and economic issues.	The review of the constitution is being undertaken on a phased basis with work being coordinated via an associated member working party. Elements of the constitution have already been approved by Council, with work remaining in progress to enable further amendments to be presented to Council later in the year.
Local Audit and Accountability Act 2014	To take appropriate action to comply with the legislative requirements of the act.	This remains under review although there are no immediate actions proposed at the present time. A major element of the Act relates to the appointment of external auditors which will become relevant once the existing arrangements expire after 2017.
Other Major Issues	To continue to manage the emerging financial and reputation risks of the changes arising regarding Local Council Tax support and localisation of Business Rates.	<p>A clear focus remains on these two significant financial risks with both the Financial Strategy process and budget monitoring reports including relevant information on a timely basis.</p> <p>The position regarding the Council's residency criteria is now subject to review following the recent high Court decision relating to an Authority elsewhere in the Country whose residency criteria was deemed to be unlawful.</p>

	<p>To ensure that adequate, effective and robust management and procurement arrangements remain in place throughout key projects such as the Clacton to Holland Haven coast defence scheme, to deliver value for money, and implement the findings from the external auditor following their specific review of this project.</p>	<p>Coast Defence Scheme - The appropriate cash flow management processes are now in place following the start of payments being made to the contractor and the receipt of grant funding from the Environment Agency (EA). Grant funding from the EA is being claimed 3 months in advance based on a current spend profiles with the aim of ensuring a positive cash flow position is maintained.</p> <p>It is recognised that there will be an annual cost of maintaining the scheme on an ongoing basis once it is completed. This issue will be included in future financial strategies / forecasts and it is also worth highlighting that feasibility studies to maximise commercial opportunities from the scheme are in progress with the aim of generating income to support the long term maintenance of the seafront / coast defence scheme.</p> <p>The Council will be working with the EA and ECC to keep monitoring and reporting requirements/ obligations under review to ensure all stakeholders are informed as necessary.</p> <p>The Council's current review of the Constitution includes changes to the Tender Evaluation Panel process to ensure any external specialist / consultants who are invited onto the panel declare any potential conflicts of interest which responds to a specific issue identified as part of the procurement process.</p> <p>The Professional Services Contractor overseeing the works are actively challenging the invoices / claims for payment being submitted by the works contractor, along with providing TDC with weekly site reports and utilising access to their specialist legal team in supporting the delivery of the overall project.</p> <p>Crematorium Enhancements - The outcome from the recent tender process, which was supported by external specialists, was agreed by Cabinet on 4 July 2014 with work now underway to implement the project, which includes the installation of mercury abatement equipment. The costs identified as part of the tender process are within the overall budget set aside for this project.</p>
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Appendix B

	<p>To ensure that adequate, effective and robust arrangements are in place for the acquisition of sites in the Jaywick area, with a view to facilitating development or directly developing the sites for housing / regeneration stimulation.</p>	<p>Cabinet considered a report on 5 September 2014 that set out the initial phase of this project. The delegations agreed include the involvement of the Corporate Directors for Corporate Services and Life Opportunities in consultation with the Council's S151 officer and Monitoring Officer as part of the process of ensuring a robust approach to the delivery of this project.</p>
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Ian Davidson
Chief Executive
Tendring District Council
Town Hall
Clacton-On-Sea
Essex
CO15 1SE

28 April 2014

Ref: TDC/Fee letter 14-15

Direct line: 07967 624 335

Email: NHarris2@uk.ey.com

Dear Ian

Tendring District Council Annual Audit and Certification Fees 2014/15

We are writing to confirm the audit and certification work that we propose to undertake for the 2014/15 financial year at Tendring District Council. The fee reflects the risk-based approach to audit planning set out in the Code of Audit Practice and the work mandated by the Audit Commission for 2014/15.

Indicative Audit Fee

The audit fee covers the:

- ▶ Opinion of the financial statements;
- ▶ Value for money conclusion; and
- ▶ Report to National Audit Office on the Whole of Government accounts.

For the 2014/15 financial year the Audit Commission has set the scale fee for each audited body as part of the recent 5 year procurement exercise and consequently it is not liable to increase in that period without a change in scope.

The 2014/15 scale fee is based on certain assumptions, including:

- ▶ The overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year;
- ▶ We are able to place reliance on the work of internal audit to the maximum extent possible under auditing standards;
- ▶ The financial statements will be available to us in line with the agreed timetable;
- ▶ Working papers and records provided to us in support of the financial statements are of a good quality and are provided in line with our agreed timetable; and
- ▶ Prompt responses are provided to our draft reports.

Meeting these assumptions will help ensure the delivery of our audit at the indicative audit fee.

The indicative audit fee set out in the table below has initially been set at the scale fee level as the overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year.

As we have not yet completed our audit for 2013/14, our audit planning process for 2014/15 will continue as the year progresses. Fees will be reviewed and updated as necessary, within the parameters of our contract with the Audit Commission.

Certification fee

The Audit Commission has set an indicative certification fee for each audited body. The indicative fee is based on the 2012/13 actual certification fees available adjusted to reflect any known schemes that no longer require auditor certification. The Audit Commission has revised the previously published 2013/14 indicative certification fee to reflect further schemes that no longer require auditor certification. We will report the final indicative fees for 2013/14 in our 2013/14 Audit Results Report.

The composite indicative fee is based on the expectation that an audited body is able to provide the auditor with complete and materially accurate claims and returns, with supporting working papers, within agreed timeframes.

The indicative certification fee for 2014/15 relates to work on grant claims and returns for the year ended 31 March 2015. We have set the certification fee at the composite indicative fee level. We will update our risk assessment after we complete 2013/14 certification work, and to reflect further changes in the Audit Commission's certification arrangements.

Summary of Fees

	Indicative fee 2014/15 £	Planned fee 2013/14 £	Actual fee 2012/13 £
Total Code audit fee	77,377***	77,377***	80,107*
Certification of claims and returns	19,090	16,931	28,996**
Non audit work	n/a	n/a	n/a

* In 2012/13, the Audit Commission set the scale fee for the Code audit at £77,377. The final audit fee was £80,107, following extra audit work in reviewing the Council's approach to ethical governance.

** The Audit Commission set the 2012/13 scale fee for the certification of claims and returns at £24,500. The final certification fee was £28,996 as the Housing and Council Tax Subsidy Benefit claim involved extra work with an extra fee of £4,496 charged to the Council.

We agreed the final fee variations with the Finance and Procurement Manager and obtained Audit Commission approval.

*** We are discussing a scale fee variation for Code work for current audit work covering a significant coastal protection project with the Chief Executive and the Finance and Procurement Manager. The work will cover both 2013/14 and 2014/15 financial years and is subject to Audit Commission approval.

Any additional work that we may agree to undertake (outside of the Audit Code of Practice) will be separately negotiated and agreed with you in advance.

Billing

The indicative audit fees will be billed in 4 quarterly instalments.

Audit Plan

Our plan for the audit of the financial statements will be issued in March 2015. This will detail the significant financial statement risks identified, planned audit procedures to respond to those risks, and any changes in fee. It will also set out the risks identified in relation to the Value for Money conclusion. Should we need to make any significant amendments to the audit fee during the course of the audit, we will discuss this in the first instance with the Chief Finance Officer and, if necessary, prepare a report outlining the reasons for the fee change for discussion with the Audit Committee.

Audit team

The key members of the audit team for the 2014/15 financial year are:

Neil Harris Director	NHarris2@uk.ey.com	Tel: 07967 624 335
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Chris Hewitt Manager	CHewitt@uk.ey.com	Tel: 07879 667 245
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We are committed to providing you with a high quality service. If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, please contact me. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London, SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute.

Yours sincerely

Neil A Harris
Director
For and on behalf of Ernst & Young LLP

cc. Richard Barrett, Finance and Procurement Manager
Councillor Griffiths, Chairman of the Audit Committee