

**MINUTES OF THE MEETING OF THE AUDIT COMMITTEE,
HELD ON THURSDAY, 25TH FEBRUARY, 2021 AT 10.30 AM
THE MEETING WAS HELD PURSUANT TO STATUTORY INSTRUMENT 2020/392.**

Present:	Councillors Coley (Chairman), Alexander (Vice-Chairman), Fairley, King, Miles, Placey and Steady
In Attendance:	Lisa Hastings (Assistant Director (Governance) & Monitoring Officer), Richard Barrett (Assistant Director (Finance and IT) & Section 151 Officer), Craig Clawson (Internal Audit Manager), Ian Ford (Committee Services Manager), Kai Aberdeen (Theatre General Manager (Technical))(items 13 - 17 (part) only), Keith Durrant (Democratic Services Officer) and Emma Haward (Leadership Support Assistant)
Also in Attendance:	Lisa Clampin (Lead Partner – BDO LLP, the Council's appointed External Auditor)

13. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

There were no apologies for absence submitted or substitutions on this occasion.

14. MINUTES OF THE LAST MEETING

The Minutes of the last meeting of the Committee held on 30 November 2020 were approved as a correct record.

15. DECLARATIONS OF INTEREST

There were no declarations of interest made on this occasion.

16. QUESTIONS ON NOTICE PURSUANT TO COUNCIL PROCEDURE RULE 38

There were no Questions on Notice on this occasion.

17. REPORT OF THE INTERNAL AUDIT MANAGER - A.1 - REPORT ON INTERNAL AUDIT: OCTOBER 2020 - JANUARY 2021

The Committee had before it a report submitted by the Council's Internal Audit Manager (A.1) which provided a periodic update on the Internal Audit function for the period October 2020 to January 2021. That report was split into two sections as follows:-

- (1) Internal Audit Plan Progress 2020/21; and
- (2) Quality Assurance Improvement Programme (QAIP).

(1) INTERNAL AUDIT PLAN PROGRESS 2020/21

It was reported that a total of nine audits had been completed since the previous update to the Audit Committee in October 2020. Eight of the nine audits completed had received a satisfactory level of assurance. One audit (Princes Theatre) had received an overall opinion of 'Improvement Required'.

Fieldwork had been completed on a further three audits with the draft report yet to be negotiated, namely:-

- GDPR – Data Sharing Agreements;
- Fleet Management; and
- Impact on Governance – COVID-19.

Fieldwork was ongoing on another eight audits with a final four audits allocated and started during February 2021. Three of those four related to the revenues and benefits service unit and had purposely been left as late in the financial year as possible due to the impact that issuing Covid-19 business grants had made on that service.

Members were informed that consultancy and advice continued to be provided on the corporate Digital Transformation, Office Transformation and Project Management projects where required. There were no significant issues to report at this time.

Quality Assurance

Members were aware that the Internal Audit function issued satisfaction surveys for each audit completed. In the period under review 100% of the responses received had indicated that the auditee had been satisfied with the audit work undertaken.

Resourcing

It was reported that the Internal Audit section was currently working with an establishment of 3 'Full Time Equivalents' with access to a third party provider of internal audit services for specialist audit days as and when required.

The Committee was informed that the Internal Audit Team had recruited an apprentice in October 2020. However, due to the on-going impact of COVID-19, that apprenticeship subsequently had been put on hold and would be reassessed later in the year. The Internal Audit Team continued to support the Emergency Planning function as required.

Members recalled that at their meeting held in October 2020 it had been expected that the Internal Audit Plan would be on track to be complete earlier than anticipated. However, since the end of the third quarter and the start of the latest Covid-19 lockdown, it had been a challenge for some services to provide enough resource to support the audit. As a result Officers had been risk assessing each audit in order to determine the level of work needed and negotiating with the relevant service unit managers on resource requirements in order to ensure that Internal Audit could complete enough work to still be able to provide an overall opinion. Limitations to the scope of that audit were then reported in both the Draft and Final Audit Reports.

Outcomes of Internal Audit Work

The Public Sector Internal Audit Standards (PSIAS) required the Internal Audit Manager to report to the Committee on significant risk exposures and control issues. Since the last such report nine audits had been completed and the final report issued. Three audits had received a 'Substantial Assurance' audit opinion and four had received an 'Adequate Assurance' audit opinion. One audit had received an 'Improvement Required' audit opinion and the other remaining audit had not required an opinion to be made.

Princes Theatre – ‘Improvement Required’ Audit Outcome

1. Management Examination of Reconciliations

It was reported that reconciliations between systems were required and undertaken in order to ensure that all payments had been received correctly and allocated to the correct accounting codes. At present those reconciliations were being carried out by the Operational Services support team and therefore any discrepancies were not being viewed and approved by Theatre Management Officers.

Agreed Audit Action: Reconciliations are to be viewed by a member of theatre management to evidence reconciliations have been completed accurately and promptly. There should also be evidence of this check being carried out.

2. Inadequate Till System

Members were informed that The Essex Hall bar in Clacton Town Hall used tills to record bar sales when it was used for events and hire. Those tills were stand alone and did not offer the analytics available to most till systems used in the industry. In addition, those tills could not be connected to the Council's network and so the full functionality and office based reporting were not available.

Agreed Audit Action: Replacement till system to be installed, tested and working in liaison with IT in time for Theatre re-opening. Till system to have full stock tracking functionality, back office interrogation and analysis and other suitable features as required for robust modern financial and stock processes.

3. Lack of Stock Takes

The Committee was advised that no formal stocktaking was undertaken so it was difficult to ascertain if, or how much, shortfall of stock there was. This could be caused by either wastage, fraud/theft, leakages or stock incorrectly logged.

Agreed Audit Action: Once the new till system was installed, regular stocktakes and line checks were to be undertaken to ensure stock management was carried out in a consistent and robust manner. Audit and accountancy were to advise and assist as required.

Periodic stock takes were to be undertaken manually in the short term until the new till system was implemented.

The Council's Theatre General Manager (Technical) (Kai Aberdeen) attended the meeting and addressed the Committee on the issues listed above. He then responded to Members' questions on those matters.

Management Response to Internal Audit Findings

Members were aware that there were processes in place to track the action taken regarding findings raised in Internal Audit reports and to seek assurance that appropriate corrective action had been taken. Where appropriate, follow up audits had been arranged to revisit significant issues identified after an appropriate time. There were two high severity issues overdue (by less than three months) which both related to either Planning Enforcement or Housing Allocations.

Update on previous significant issues reported

Housing Allocations

It was reported that the outstanding action for Housing Allocations related to the implementation of a new Housing Allocations system. The latest update from the service was that the system was at its final stages of testing. Internal Audit had used the days available in the follow-up review to support the service in implementing the new system and to ensure that as many different scenarios were tested as possible before going live.

Planning Enforcement

Members were advised that the Planning Enforcement Follow-Up audit was now in progress. The Auditor was currently reviewing whether all previous issues had now been addressed and would gather evidence to support the actions implemented.

There was also currently one major action outstanding regarding the update of the Planning Enforcement Policy. A draft policy was currently being reviewed by the Council's legal services team. The policy would then be submitted to the Planning Committee to be formally approved and adopted.

Impact on Governance – COVID 19

The Committee recalled that it had been reported at its meeting held in October 2020 that Internal Audit would undertake a review on the impact of governance within the Council due to COVID-19. An external consultant had been commissioned to undertake the work due to the Internal Audit Manager's involvement with the emergency planning response, which would ensure that the review remained independent. That work was now close to completion and was currently being assessed. It was anticipated that the outcomes of the review would be reported to the meeting of the Committee scheduled to be held during March 2021.

(2) QUALITY ASSURANCE IMPROVEMENT PROGRAMME (QAIP)

Members had before them the latest QAIP update as set out in Appendix B to the Internal Audit Manager's report.

The Committee was reminded that the Internal Audit function was required to be assessed externally every five years on its compliance with the Public Sector Internal Audit Standards (PSIAS). This had last been undertaken three years ago and actions from that assessment had been implemented. Within the five year assessment period, Internal Audit was required to undertake a periodic self-assessment against the PSIAS in order to develop a QAIP.

It was reported that the QAIP had been reassessed and the agreed actions had been updated where the Internal Audit Team were now compliant where they had previously been not. One area to highlight where Internal Audit was only partially compliant related to 'risk appetite'. Aligning the risk appetite of Internal Audit and Risk Management remained outstanding as an opportunity to liaise with Senior Management and the Fraud and Risk Manager to assess the complexities of risk management across all departments had not presented itself over the past year.

Having considered and discussed the contents of the Internal Audit Manager's report and its appendices:-

It was moved by Councillor Fairley, seconded by Councillor Alexander and:-

RESOLVED that –

- (a) the contents of the report be noted;
- (b) the contents of the Quality Assurance Improvement Programme be noted;
- (c) the outstanding action for Housing Allocations (the implementation of a new IT system) be added to the Committee's Table of Outstanding Issues; and
- (d) the Committee endorses the agreed Audit Actions in relation to the Princes Theatre as they will also support and protect staff going forward.

18. REPORT OF THE ASSISTANT DIRECTOR (GOVERNANCE) - A.2 - NEGC LTD JOINT SCRUTINY PANEL: SCRUTINY OF NEGC LTD AND THE GOVERNANCE OF FUTURE COUNCIL CONTROLLED COMPANIES.

There was a report submitted by the Council's Assistant Director (Governance) & Monitoring Officer (report A.2) which sought to enable the Committee to consider its formal response to a recommendation made by the Resources and Services Overview & Scrutiny Committee following that Committee's consideration of the report submitted by the NEGC Ltd Joint Scrutiny Panel on completion of the Panel's scrutiny of NEGC Ltd and the governance of future Council controlled companies.

Members were informed that, following respective meetings held on 29 July and 5 August 2019, the Resources and Services Overview and Scrutiny Committee and the Community Leadership Overview and Scrutiny Committee, had both approved that a joint scrutiny panel be established in order to scrutinise the work of the North Essex Garden Communities Limited (NEGC) and, in particular, its interim business plan and future business plans. That Joint Scrutiny Panel (JSP) had met three times as follows:

16 October 2019;
12 February 2020; and
17 September 2020.

The final report of the JSP had been submitted to the Resources and Services Overview and Scrutiny Committee on 16 November 2020. At that meeting the Resources and Services Overview and Scrutiny Committee had been informed that the JSP had:-

- *examined the various responsibilities of the Council as community leader, shareholder of NEGC Ltd and having a Director of the Board of that Company, including the inherent conflicts and the management of those conflict points;*
- *been made aware of the absolute importance of Part 1 of the Local Plan in the critical path for Garden Communities and NEGC Ltd (and any future delivery vehicle for the Communities). NEGC Ltd had been commissioned by the partner Councils (Braintree, Colchester, Essex and Tendring) to undertake work for those partner Councils to secure approval of Part 1 of their Local Plans;*
- *scrutinised the Interim Business Plans for NEGC Ltd for 2018/19 and 2019/20;*

- *reflected upon the governance arrangements surrounding the work of this Council's Monitoring Officer and Section 151 Officer with their colleagues in the other partner Councils in respect of protecting the interests of this Council in relation to NEGC Ltd;*
- *looked briefly at possible future delivery vehicles for the Garden Communities together with best practice models for the future development of governance arrangements for Council controlled companies such as NEGC Ltd;*
- *noted at its last meeting the decision of the North Essex Garden Communities Ltd Board on 6th July 2020 to take all the necessary steps to wind up its three Local Delivery Vehicles and that the three Councils concerned had also all approved that NEGC Ltd itself cease trading on 31 August 2020 and that the necessary winding up procedures for it be undertaken, subject to, in the case of this Council, the Leader of the Council, in consultation with the Section 151 Officer and the Monitoring Officer, being satisfied around the final accounting processes;*
- *been advised that NEGC Ltd had been solvent and that, after settling any outstanding liabilities, the remaining assets of the company would be apportioned to the shareholders entirely as it should have been; and*
- *had concluded its work based on the approved scope and terms of reference for the Panel on the basis that the NEGC Ltd was being wound up.*

The Resources and Services Overview and Scrutiny Committee having considered the report of the JSP had resolved that it:-

- (1) *notes that the winding up of NEGC Ltd means that the rationale for establishing the Joint Scrutiny Panel, and the approved scope of the Panel, has also ended and requests that Cabinet notes that this Committee and the Community Leadership Overview and Scrutiny Committee will formally note that the Panel is being dissolved.*
- (2) *that this Committee notes the following recommendations from the Joint Scrutiny Panel and formally submits (a), (b) and (d) below to the Cabinet for its consideration:*
 - (a) *To record and applaud the hard work of officers in respect of the development of the Tendring-Colchester Borders Garden Community that resulted in the proposals for the Garden Community being accepted by the Local Plan Inspector in his enquiry into the draft Local Plan;*
 - (b) *To note that there is important work being undertaken on various work streams to secure an exemplar development through the Tendring-Colchester Borders Garden Community;*
 - (c) *To establish a further Joint Scrutiny Panel at an appropriate time in the future to monitor, examine and review arrangements for delivery of the Tendring-Colchester Borders Garden Community (and particularly the commitments and financial expose of the Council to any external body established by the Council to lead on the development of that Garden Community);*
 - (d) ***To endorse the principle that where the Council establishes a company limited by shares (on its own or with other bodies) that it also establishes a Shareholder Group (either solely or with the other public bodies where the company established jointly) and that, the terms of reference similar to those set out at Appendix A to this report should form the terms of reference for that Shareholder Group, adjusted as***

necessary to the particular circumstances, business of the Company and consideration of such matters as:

- (i) How any co-opted members are used and how they are defined in the terms of reference;*
- (ii) The Chairman of the relevant overview and scrutiny committee and **the Chairman of the Audit Committee being appointed to the Shareholder Group as non-voting members;** and*
- (iii) Ensuring that any "invitations to attend" issued to councillors or officers etc. must be provided to such persons at least five working days in advance of the meeting.*

Consequently, the Audit Committee was now requested to give its particular consideration to the recommendation of the Resources and Services Overview and Scrutiny Committee highlighted in **bold above** and especially where it pertained to the suggestion that the Chairman of the Audit Committee should be appointed to the Shareholder Group as a non-voting member. The recommended Terms of Reference for the Shareholder Group were attached as Appendix B to the Assistant Director's report.

Members were made aware that the Community Leadership and Partnerships Overview & Scrutiny Committee would also be considering the final report of the JSP at its meeting due to be held on 1 March 2021. The Cabinet would consider in due course all of the above recommendations of the Resources and Services Overview and Scrutiny Committee, and any comments or recommendations made by the Audit Committee at this meeting and by the Community Leadership and Partnerships Overview & Scrutiny Committee on 1 March 2021 would also be submitted to the Cabinet, in order that Cabinet could take them into consideration in reaching its decision.

The Assistant Director & Monitoring Officer suggested that this Committee could determine that the idea of a Shareholder Group could be extended to other outside bodies or partnerships such as Tendring - Colchester Borders, or similar.

The Committee was made aware that, if Cabinet decided to form a Shareholder Group, the Monitoring Officer would recommend that this requirement was formally adopted within the Council's Constitution. Through the Gifted Unit Scheme the Council had been requested to become a shareholder for a number of management companies, although currently no decisions had been required as shareholders as the concept was fairly new.

During their consideration of this matter Members expressed their concern and determination that the independence of the Audit Committee should be maintained.

Having considered and discussed all of the information submitted in the Assistant Director & Monitoring Officer's report and appendices attached thereto:-

It was moved by Councillor Steady, seconded by Councillor Alexander and:-

RESOLVED that the Audit Committee -

- (a) notes the contents of the report and the suggestion from the Resources and Services Overview and Scrutiny Committee that, in principle, a Shareholder Group should be formed where the Council establishes a company;

- (b) whilst supporting the principle of the Shareholder Group, does not agree, that the terms of reference of that Group should be established at this stage; and therefore
- (c) recommends to Cabinet that further work be undertaken by a small group made up of representatives from Cabinet, the Chairmen of the two Overview and Scrutiny Committees and the Chairman of the Audit Committee, together with the Monitoring Officer and the Section 151 Officer to look into the concerns raised in a joined up approach prior to further recommendations being submitted to the Cabinet.

19. REPORT OF ASSISTANT DIRECTOR (FINANCE & IT) - A.3 - EXTERNAL AUDITOR'S ANNUAL AUDIT LETTER FOR THE YEAR ENDED 31 MARCH 2020

There was submitted a report by the Council's Assistant Director (Finance & IT) (report A.3) which presented for the Committee's consideration the External Auditor's Annual Audit Letter for the year ended 31 March 2020.

The Committee was reminded that the Accounts and Audit Regulations required that:

- (1) *A committee must meet to consider the letter as soon as reasonably practicable; and*
- (2) *following consideration of the letter in accordance with paragraph (1) the authority must -*
 - (a) *publish (which must include publication on the authority's website) the audit letter; and*
 - (b) *make copies available for purchase by any person on payment of such sum as the authority may reasonably require.*

Members were informed that there were a number of different strands of external audit work undertaken during the year but primarily they related to the financial statements and value for money opinion. The outcomes from those activities were reported to the Council separately as they were completed during the year. The Annual Audit Letter was effectively therefore an end of year report for the Council which captured and summarised those outcomes in one document. It was primarily directed to Members but it must also be made publicly available.

It was reported that the Annual Audit Letter relating to 2019/20 (as appended to the Assistant Director's report) had raised no significant concerns. Page 7 of the Auditor's letter included some observations in respect of a number of the Council's financial reserves and its approach to managing its finances. The associated recommendations that were referred to had been set out in the External Auditor's Audit Completion Report that had been previously considered by the Committee at its meeting held on 30 November 2020. Those recommendations had now been included within the Table of Outstanding Issues report in order to ensure their progress could be effectively monitored by the Committee and that report would be considered later in the meeting.

Having considered and discussed the contents of the Annual Audit Letter:-

It was moved by Councillor Fairley, seconded by Councillor Alexander and:-

RESOLVED that the contents of the Annual Audit Letter, for the year ended 31 March 2020 be noted.

20. REPORT OF ASSISTANT DIRECTOR (FINANCE & IT) - A.4 - AUDIT COMMITTEE: TABLE OF OUTSTANDING ISSUES

The Committee had before it a report submitted by the Assistant Director (Finance & IT) (A.2) which presented to the Committee the progress on outstanding actions identified by the Committee, together with updates on other general issues that fell within the responsibilities of the Committee.

The Committee was informed that there were four appendices to this report which contained:

- 1) updates against general issues previously identified by the Committee;
- 2) updates against recommendations made by the External Auditor;
- 3) the latest position against the Annual Governance Statement Action Plan for 2020/21; and
- 4) a summary of the Government's initial response to the recommendations made by the Redmond Review.

It was reported that, to date, there were no significant issues arising in respect of the items identified in Appendices A and B, with work remaining in progress or updates provided elsewhere on the agenda, where appropriate. However, there had been a significant impact from COVID 19 in terms of progressing the actions reported in Appendix C as quickly as originally anticipated. However, activity remained in progress against all actions and work would continue into 2021/22 as required.

Redmond Review

The Committee was aware that Sir Tony Redmond, a former council treasurer and local government ombudsman, had been asked by the Government to look at the effectiveness of external audit, as a summary of recommendations emerging from Sir Tony's review had been presented to it at its meeting held in October 2020. At that time, the response from the Government was still awaited. The Government had now published its initial response.

Members were reminded that Sir Tony had made 23 recommendations relating to the quality, timeliness and sustainability of local audit, and the transparency of local authority accounts. The Government had therefore grouped its response into the following five themes, which were summarised in Appendix D to the Assistant Director's report.

- *Action to support immediate market stability;*
- *Consideration of system leadership options;*
- *Enhancing the functioning of local audit, and the governance for responding to its findings;*
- *Improving transparency of local authorities' accounts to the public; and*
- *Action to further consider the functioning of local audit for smaller bodies.*

It was reported that many of the responses indicated that the Government would either be liaising with the relevant stakeholders or would be further considering some of the recommendations, with the Government's full response expected during the spring of 2021.

Having considered the above and having discussed the contents of the report and its appendices:-

It was moved by Councillor Placey, seconded by Councillor Alexander and:-

RESOLVED that –

- (a) the progress made against the actions set out in Appendices A to C to item A.4 of the report of the Assistant Director (Finance & IT) be noted; and
- (b) the contents of the Government's initial response to the Redmond Review's recommendations, as set out in Appendix D to the aforementioned report, be noted.

The meeting was declared closed at 11.54 am

Chairman