



## AUDIT COMMITTEE

|               |  |
|---------------|--|
| <b>DATE:</b>  | <b>Thursday 21 September 2017</b>  |
| <b>TIME:</b>  | <b>7.30 pm</b>   |
| <b>VENUE:</b> | <b>Council Chamber, Council Offices,<br/>Thorpe Road, Weeley, CO16 9AJ</b> |

### MEMBERSHIP:

|   |                         |
|---|-------------------------|
| <b>Councillor Coley (Chairman)</b>        | <b>Councillor Hones</b> |
| <b>Councillor Poonian (Vice-Chairman)</b> | <b>Councillor Scott</b> |
| <b>Councillor Alexander</b>               |                         |

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**For further details and general enquiries about this meeting, contact Katie Sullivan on 01255 686585**

**DATE OF PUBLICATION: WEDNESDAY 13 SEPTEMBER 2017**

## **AGENDA**

### **1 Apologies for Absence and Substitutions**

The Committee is asked to note any apologies for absence and substitutions received from Members.

### **2 Minutes of the Last Meeting (Pages 1 - 8)**

To confirm and sign as a correct record, the minutes of the last meeting of the Committee, held on Thursday 22 June 2017.

### **3 Declarations of Interest**

Councillors are invited to declare any Disclosable Pecuniary Interests or other interest, and the nature of it, in relation to any item on the agenda.

### **4 Report of the Audit and Governance Manager - A.1 - Report on Internal Audit - June 2017 to August 2017 (Pages 9 – 16)**

To provide the Committee with a periodic report on the Internal Audit function for the period June 2017 – August 2017.

### **5 Report of the Corporate Director (Corporate Services) - A.2 - Audit Results Report 2016/17**

To present to the Committee:

- The External Auditor's Audit Results Report for the period ending 31 March 2017 and Letter of Representation for consideration and approval to enable a final opinion on the accounts and value for money arrangements to be formally issued by the External Auditor;
- The Statement of Accounts 2016/17 for consideration and approval for publication by the end of September 2017; and
- A revised Annual Governance Statement 2016/17 for approval.

*\*Report to follow*

### **6 Report of the Corporate Director (Corporate Services) - A.3 - Table of Outstanding Issues (Pages 17 – 24)**

An update will be given on the progress against outstanding actions identified by the Committee.

### **Date of the Next Scheduled Meeting**

*The next scheduled meeting of the Audit Committee is to be held in the Council Chamber, Council Offices, Thorpe Road, Weeley, CO16 9AJ at 7.30 pm on Thursday 25 January 2018.*

Items currently scheduled for that meeting include:

- 1) Internal Audit Regular Monitoring Report;
- 2) Annual Audit Letter 2016/17;
- 3) Corporate Risk Register (six monthly review);
- 4) Risk Based Verification Policy;
- 5) Counter Fraud Strategy / Update; and
- 6) Table of Outstanding Issues (including update against External Audit Recommendations).

## **Information for Visitors**

### **FIRE EVACUATION PROCEDURE**

There is no alarm test scheduled for this meeting. In the event of an alarm sounding, please calmly make your way out of any of the fire exits in the hall and follow the exit signs out of the building.

Please heed the instructions given by any member of staff and they will assist you in leaving the building and direct you to the assembly point.

Please do not re-enter the building until you are advised it is safe to do so by the relevant member of staff.

Your calmness and assistance is greatly appreciated.

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**MINUTES OF THE MEETING OF THE AUDIT COMMITTEE,  
HELD ON THURSDAY, 22ND JUNE, 2017 AT 7.30 PM  
IN THE COUNCIL CHAMBER, COUNCIL OFFICES, THORPE ROAD, WEELEY,  
CO16 9AJ**

|                       |   |
|-----------------------|---|
| <b>Present:</b>       | Councillors Coley (Chairman), Alexander, Hones (except item 1) and Scott  |
| <b>Also Present:</b>  | None  |
| <b>In Attendance:</b> | Richard Barrett (Head of Finance, Revenues and Benefits Services), Steve Blake (Audit Manager), Ian Ford (Committee Services Manager), Clare Lewis (Fraud and Risk Manager) and Katie Sullivan (Committee Services Officer) |

**1. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

An apology for absence was submitted on behalf of Councillor Poonian (Vice-Chairman), with no substitute.

**2. MINUTES OF THE LAST MEETING HELD ON THURSDAY 16 MARCH 2017**

The minutes of the meeting of the Committee held on 16 March 2017 were approved as a correct record and signed by the Chairman.

**3. DECLARATIONS OF INTEREST**

There were none on this occasion.

**4. REPORT OF AUDIT AND GOVERNANCE MANAGER - A.1 - REPORT ON INTERNAL AUDIT - MARCH - MAY 2017 AND ANNUAL REPORT OF THE AUDIT AND GOVERNANCE MANAGER 2016/17**

REPORT ON INTERNAL AUDIT FOR MARCH TO MAY 2017

The Council's Audit and Governance Manager (Steve Blake) provided a periodic report on the Internal Audit function for the period of March to May 2017.

The Audit and Governance informed the Committee that 98% of the 2016/17 Internal Audit Plan had been completed by the time of production of this report, with all key systems audits complete or at draft report stage. Eleven audits had been completed in the quarter of which eight had been given either Substantial or Adequate Assurance. Three audits had been rated Improvement Required and no audits had been rated Significant Improvement Required.

It was reported that an annual self-assessment against the Public Sector Internal Audit Standards had identified a small number of outstanding compliance issues to be addressed during 2017/18 alongside the changes arising from the introduction of revised Standards from April 2017.

The Audit and Governance Manager also informed the Committee of the current position in relation to:

- (i) Public Sector Internal Audit Standards;
- (ii) Standard 2060 Reporting to Senior Management and the Board;
- (iii) Internal Audit Plan 2016/17 Progress;
- (iv) Internal Audit Plan 2017/18 Progress;
- (v) Independence of the Internal Audit Activity;
- (vi) Outcomes of Internal Audit Work;
- (vii) Sundry Debtors;
- (viii) Risk Management;
- (ix) Uniform Application Review;
- (x) Management response to Risk;
- (xi) Management response to Internal Audit Reports; and
- (xii) Quality Assurance.

#### ANNUAL REPORT OF THE AUDIT AND GOVERNANCE MANAGER 2015/16

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

The Audit and Governance Manager informed Members that the Internal Audit function had completed 37 scheduled audits during the year, and a further 10 2016/17 audits had been completed by May 2017. For the audits that had been completed, assurance had been classified as:-

| <b>Assurance</b>                 | <b>Number of Audits</b> |
|----------------------------------|-------------------------|
| Substantial                      | 15                      |
| Adequate                         | 24                      |
| Improvement Required             | 8                       |
| Significant Improvement Required | 0                       |

The Audit and Governance Manager informed the Committee that 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, however those audits had included some weaknesses relating to key systems in use across the Council therefore giving a wider risk exposure. No audits had come close to being classified Significant Improvement Required.

Taking account of the above and, where appropriate, reviews by other assurance providers, whilst the governance arrangements were generally found to be sound and fit for purpose, the wider risk exposure linked to some of the significant issues reported had resulted in it only being possible to give a qualified assurance.

##### (2) Qualification to the Opinion

It was reported that the opinion that had been given above had been based upon the level of Internal Audit activity that it had been proved possible to deliver with the resources available during the year. It had not been 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 the audit outcomes identified, but not reported until the 2017/18 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 the Internal Audit Work Undertaken to Formulate the Opinion, and Reliance Placed on the Work by Other Assurance Bodies

In accordance with best practice and the requirements of the Public Sector Internal Audit Standards, the 2016/17 plan had included arrangements for the follow up of issues found at previous audits. This had taken the form of: -

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

A schedule of the audits undertaken during 2016/17 was included at Appendix B of the Report of the Audit and Governance Manager.

Upon completion of each audit a draft report was issued to the appropriate Corporate Director / Head of Department, containing details of any findings required addressing that which had been identified. Subsequent discussions had been held with appropriate Senior Managers and final reports were then issued, which included detail of agreed actions to resolve the issues identified. There were no instances, for the reports issued during 2016/17, or subsequently to date, where a satisfactory action had not been identified and agreed.

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

The overall opinion given in this report was relevant to the Annual Governance Statement, as was the need to highlight the issues raised in audits on Sundry Debtors, Procurement, Section 106 Agreements, Housing Allocations, Risk Management, Payroll and Human Resources Computer Application Review, and Uniform Computer Application Review all of which had been given an assurance rating of Improvement Required.

(5) Performance of the Internal Audit Function

The performance measures used during 2016/17 were as follows: -

| <b>Performance Measure</b>   | <b>Actual 2016/17</b> | <b>Actual 2015/16</b> | <b>Actual 2014/15</b> | <b>Actual 2013/14</b> | <b>Actual 2012/13</b> |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Percentage of Audit Plan Completed   | 86% *                 | 79%                   | 71%                   | 94%                   | 91%                   |
| Percentage of Satisfactory Responses to Satisfaction Surveys Issued with Final Audit | 100%                  | 96%                   | 96%                   | 100%                  | 96%                   |

|         |  |  |  |  |  |
|---------|--|--|--|--|--|
| Reports |  |  |  |  |  |
|---------|--|--|--|--|--|

\*At the time of producing this report 98% of the 2016/17 plan had been completed.

(6) Independence of the Internal Audit Activity

The Internal Audit function had maintained an independent role during the year, compliant with the requirements of the Public Sector Internal Audit Standards. Effective arrangements as detailed below were in place to maintain independence taking into account the Audit and Governance Manager's other corporate responsibilities. Effective mechanisms were in place to ensure that any other conflicts of interest within the team were identified and addressed on an audit by audit basis, with no instances where there was considered to be any impairment to independence or objectivity.

(7) Compliance with the Public Sector Internal Audit Standards

The Public Sector Internal Audit Standards had been in place from 1 April 2013 and updated in 2016 and 2017. Progress updates had been periodically reported to the Committee, on the work being undertaken to demonstrate conformance with the requirements of the Standards. Since their introduction alternate solutions had been agreed by the Audit Committee regarding the following standards:-

**1110 Organisational Independence**

The standards required specific input from the Chief Executive and the Chairman of the Audit Committee regarding the Audit and Governance Manager's performance appraisal. Alternate arrangements that enabled both to comment on the performance of the Audit and Governance Manager at any time, rather than through the formal appraisal process, had been agreed.

**1130 Impairment to Independence or Objectivity**

The Audit and Governance Manager had during 2016/17 operational responsibilities regarding Corporate Governance and Risk Management in addition to his Internal Audit duties. The standards identified that audits of activities where such a conflict of interest arose should be overseen by someone outside of Internal Audit. As there were practical issues identifying suitable staff external to the Internal Audit function who did not have a conflict of interest, the alternate arrangement agreed was for the Principal Auditor to undertake the Audit and Governance Manager's role for such audits, with the latter's role in the audit being solely that of auditee. This avoided any conflict of interest and ensured that those audits had been managed by a member of staff with Internal Audit skills and expertise.

New Standard **1112 Chief Audit Executive Roles Beyond Internal Auditing** applicable from April 2017 provided additional clarification and a requirement to periodically review such arrangements – this would be addressed in a future report to the Committee.

As referred to in the periodic report above, a small number of compliance issues relating to the Standards remained outstanding at 31<sup>st</sup> March 2017, and were listed at Appendix A. Until the external assessment planned for later in 2017 had been undertaken



successfully and any issues identified addressed, the Internal Audit function could not be considered fully compliant with the Standards.

Following discussion and questions by Members, it was:

**RESOLVED** that the contents of the report be noted.

**5. REPORT OF CORPORATE DIRECTOR (CORPORATE SERVICES) - A.2 - ANNUAL GOVERNANCE STATEMENT 2016/17**

The Audit and Governance Manager submitted the Annual Governance Statement 2016/17 for the Committee's approval.

It was reported that a new format had been devised for the Annual Governance Statement to inform Members and the public in a proactive way of the effectiveness of the Council's governance arrangements. The Annual Governance Statement had been drafted taking account of the new CIPFA / SOLACE framework.

The Committee was informed that the CIPFA / SOLACE framework identified that an Annual Governance Statement should include:-

- An acknowledgement of responsibility for ensuring that there was a sound system of governance (incorporating the system of internal control) and reference to the Council's Code of Governance;
- Reference to, and assessment of, the effectiveness of key elements of the governance framework and the role of those responsible for the development and maintenance of the governance environment, such as the Authority, the Executive, the Audit Committee, Internal Audit, and others as appropriate;
- An opinion on the level of assurance that the governance arrangements could provide and that the arrangements continued to be regarded as fit for purpose in accordance with the governance framework;
- An agreed action plan showing actions taken, or proposed, to deal with significant governance issues;
- Reference to how issues raised in the previous year's annual governance statement had been resolved; and
- A conclusion – a commitment to monitoring implementation as part of the next annual review.

Members were aware that the CIPFA / SOLACE framework required the Annual Governance Statement to be approved at a meeting of the Authority, or a delegated committee - this role had been delegated to the Audit Committee. The framework also required that the Statement be signed by the Leader of the Council and the Chief Executive, on behalf of the Council.

The Committee was informed that the CIPFA /Solace framework no longer provided a model statement that could be adopted, and it was up to each Authority to produce a compliant statement in a form of their choosing. The format adopted reflected the structure identified in the CIPFA / SOLACE framework above.

The Annual Governance Statement for 2016/17 was attached at Appendix A for approval by the Committee. It would then be subject to audit by the Council's external auditors, following which it must be signed by the Leader of the Council and the Chief Executive, and appended to the Council's Statement of Accounts. If any changes were

required following audit, then a revised Annual Governance Statement would require the Committee's approval.

Members were advised that the Leader of the Council and the Chief Executive were required to be advised of the implications of the results 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 2016/17 was considered to be robust with improvements made during the year, and significant issues that did arise identified. A number of ongoing or forthcoming items had been identified for progression in 2017/18. To monitor progress, those improvement items would be reported to Members as appropriate.

After consideration of the report, it was **RESOLVED** that the Annual Governance Statement 2016/17 be approved.

**6. REPORT OF CORPORATE DIRECTOR (CORPORATE SERVICES) - A.3 - CORPORATE RISK UPDATE**

The Head of Finance, Revenues & Benefits Services & Section 151 Officer (Richard Barrett) presented to the Committee a report on the Risk Management Framework and the updated Corporate Risk Register.

It was reported that, within the period under review, no new risks had been added to the register, no risks had been removed, or amended and there were no items that were currently under review. Risks had been amended in respect of –

- (1) 2c Community Leadership Projects;
- (2) 1a Failure to Effectively Manage Assets;
- (3) 1b Catastrophic IT Network Failure;
- (4) 1c Ineffective Communication / Management of Information;
- (5) 6a Loss of sensitive and/or personal data through Malicious Actions, Theft and/or Hacking;
- (6) 6c Disconnection from PCN Network; and
- (7) 9a Ineffective Emergency Planning.

The Committee was informed that although no changes had been identified as being required at this time, the Risk Management Framework was included at Appendix A to the report for information purposes only.

After consideration of this item it was **RESOLVED** that -

- (a) the contents of the updates provided to the current Risk Register be noted;
- (b) in the light of the Grenfell Tower in Kensington, London fire disaster, the Cabinet be requested to re-assess the Council's emergency plans for the evacuation and re-housing of residents in the event of a fire, flood or other major incident and ensure that the Council's financial reserves are adequate to cope with the aftermath over a number of months; and
- (c) the Cabinet be also requested to reassess the emergency arrangements for its own office buildings.

7. **REPORT OF CORPORATE DIRECTOR (CORPORATE SERVICES) - A.4 - TABLE OF OUTSTANDING ISSUES**

There was submitted a report by the Council's Corporate Director (Corporate Services) (A.4) 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.

For information the External Auditor's Fee letter relating to 2017/18 was attached to the report. This highlighted a 2017/18 proposed fee that remained the same as for 2016/17. The 2017/18 budget was £74,840, which was expected to be sufficient to meet the indicative audit fees including those associated with the certification of the housing benefit subsidy claim once finalised by the PSAA. If the total fees for the year increased due to the cost of additional work that might be required, then this would be managed within the overall budget position.

It was **RESOLVED** that

- (a) the progress made against the outstanding issues be noted; and
- (b) Officers explore, with the Council's insurers, the opportunity to undertake a risk audit of the Council's properties focusing on fire prevention/response issues.

8. **ITEMS SCHEDULED FOR THE NEXT MEETING OF THE COMMITTEE IN SEPTEMBER 2017**

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

- 1) Internal Audit Regular Monitoring Report
- 2) Audit Results Report 2016/17
- 3) Counter Fraud Strategy / Update
- 4) Annual Review of the Risk Based Verification Policy
- 5) Table of Outstanding Issues

The meeting was declared closed at 8.37 pm

**Chairman**

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## AUDIT COMMITTEE

21 SEPTEMBER 2017

### REPORT OF AUDIT AND GOVERNANCE MANAGER

#### A.1 REPORT ON INTERNAL AUDIT – June 2017 to August 2017

(Report prepared by Steve Blake)

#### PART 1 – KEY INFORMATION

##### PURPOSE OF THE REPORT

To provide a periodic report on the Internal Audit function for the period June 2017 – August 2017.

##### EXECUTIVE SUMMARY

- Action has been completed to address a number of issues raised in the Quality Assurance and Improvement Programme reported to the previous meeting of the Committee.
- Six audits have been completed in the period with Substantial or Adequate Assurance being achieved in four instances. The results of the remaining two audits have been addressed by circulation of the issues to senior managers with guidance regarding Constitutional requirements, it having been identified that further and more detailed work was required to be undertaken before opinions could be fairly formed. This work is to be undertaken shortly.

##### RECOMMENDATION(S)

That the report be considered and noted

#### PART 2 – IMPLICATIONS OF THE DECISION

##### DELIVERING PRIORITIES

Provision of adequate and effective internal audit helps demonstrate the Council's commitment to corporate governance matters.

##### FINANCE, OTHER RESOURCES AND RISK

###### Finance and other resources

The Internal Audit function is operating within the budget set.

###### Risk

Review of the functions of the Council by Internal Audit assists in identifying exposure to risk, and its mitigation.

##### LEGAL

The Council has a statutory responsibility to maintain adequate and effective internal audit.

## **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.**

Internal Audit activity assists the Council in maintaining a control environment that mitigates the opportunity for crime.

During the course of internal audit work issues regarding equality and diversity, and health inequalities may be identified and included in internal audit reports.

There is no specific effect on any particular ward.

## **PART 3 – SUPPORTING INFORMATION**

### **BACKGROUND**

The Public Sector Internal Audit Standards require the Audit and Governance Manager, in his role as Chief Audit Executive, to make arrangements for reporting periodically to senior management (Management Board) and to the board (Audit Committee).

### **CURRENT POSITION**

#### **Public Sector Internal Audit Standards**

The standards were revised from April 2017. The Quality Assurance and Improvement Programme (QAIP) required by the standards was reported to the June 2017 meeting of the Committee.

During the last quarter the Internal Audit Manual has been updated to reflect the revisions to the standards, to take account of changed working practices since the manual was last updated during 2016, and to improve clarity where such an issue had been identified in the QAIP. The Audit Manual is a living document and continues to be subject to update as and when required.

No additional actions requiring any updates to processes, beyond those addressed in the revision of the Audit Manual, have been identified regarding the changes arising from the 2017 revision to the standards.

Three of the eight items listed in the QAIP and drawn to the Committee's attention at its last meeting in June 2017 are now considered to have been fully addressed.

The external review of the Internal Audit function, required once every 5 years by the standards, is in progress and the results will be reported to a future meeting of the Committee.

#### **Independence of the Internal Audit Activity**

The Audit and Governance Manager in the period under review has continued to have non audit responsibilities regarding Corporate Governance. There were no audits in progress

during this period where it had been necessary for the Audit and Governance Manager to declare an interest.

Minor conflicts of interest have been identified regarding forthcoming audits on Creditors, Payroll and Council Tax which have been allocated during the period. These minor conflicts are unavoidable with an in house locally based team. Appropriate instructions have / will be given to ensure that independence is not compromised during these audits.

### **Internal Audit Plan Progress**

The Internal Audit Plan approved by the Audit Committee in March 2017 has been kept under review, in accordance with the requirements of the Public Sector Internal Audit Standards. Audits from the 2016/17 Internal Audit Plan that were incomplete at 31<sup>st</sup> March 2017 have been rolled forward and included together with the planned work for 2017/18 at Appendix A.

At 31<sup>st</sup> August 2017, 35% of the plan had been completed compared to a target of 41%. However a number of audits are nearing completion and once finalised in the third quarter they will bring the team back on target. Additionally time pressures have emerged / are emerging regarding issues concerning old audit software which needs to remain accessible for a number of years as it holds historic audit content that needs to be retained. This has proved more problematical than anticipated and has required more time than allowed for in the plan.

The plan will therefore need to be updated to take account of such factors. However as audits primarily undertaken in the third quarter of the financial year are key systems audits that are considered compulsory, there is currently no urgency to address this matter as no audits will be allocated for some time outside of this category. It would be prudent to review the plan later in 2017 when it can also take into account any other emerging issues to ensure, that following completion of the key systems audits, the resources available are appropriately allocated to the highest priority audits at that time. Mechanisms exist to address such issues with the Committee Chair if there is a need for such action in advance of the next scheduled meeting of the Committee.

**Appendix A** provides details of the status for each audit as at August 2017.

**Quality Assurance** – The Internal Audit function issues satisfaction surveys for each audit completed. In the period under review 100% of the responses received indicated that the auditee was satisfied with the audit work undertaken.

### **Outcomes of Internal Audit Work**

The standards require the Audit and Governance Manager to report to the Audit Committee on significant risk exposures and control issues. Since the last report 6 audits have been completed and four final reports issued. The Public Sector Internal Audit Standards require the reporting of significant risk exposures and control issues.

| <b>Assurance</b> | <b>Colour</b> | <b>Number this Period</b> | <b>Year to Date</b> |  |
|------------------|---------------|---------------------------|---------------------|--|
| Substantial      |               | 1                         | 4                   |  |
| Adequate         |               | 3                         | 7                   |  |
| Improvement      |               | 0                         | 3                   |  |

|                                  |  |   |   |  |
|----------------------------------|--|---|---|--|
| Required                         |  |   |   |  |
| Significant Improvement Required |  | 0 | 0 |  |

For the purpose of the colour coding approach, both the substantial and adequate opinions are shown in green as both are within acceptable tolerances.

The following issues are drawn to the Committee's attention: -

**Procurement – Order Process Compliance  
Public Realm Procurement**

Formal Internal Audit Reports have not been issued following completion of these audits. A review of the fieldwork undertaken has identified that it is necessary to undertake a further more in depth audit regarding certain processes to understand and address the underlying issues that are arising and to be able to form a fair opinion. This audit has been allocated and is planned to commence shortly.

In the intervening period, senior managers have been provided with an outline of the issues identified and reminded of the need for their staff to comply with the requirements of the Constitution regarding procurement and the processing of invoices.

**Management Response to Risk**

There have been no instances regarding those audits completed in the period under review where management's response to risks identified in the Internal Audit work undertaken, has in the Audit and Governance Manager's opinion, been unacceptable.

**Management Response to Internal Audit Reports**

The number of high severity issues outstanding was as follows: -

| Status                     | Number | Comments  |
|----------------------------|--------|---|
| Overdue more than 3 months | 0      |   |
| Overdue less than 3 months | 3      | Regular reminders are issued to relevant managers to establish that corrective action has been taken / encourage resolution of each issue |
| Not yet due                | 9      |   |

There are no issues regarding these outstanding actions that need to be drawn to the attention of the Committee at this time, and these continue to be pursued through the Action Tracking process and periodic reporting to Corporate Directors and Senior Managers.

**BACKGROUND PAPERS FOR THE DECISION**

Audit Reports

**APPENDICES**




**Appendix A** – Internal Audit Plan 2017/18 Progress Report



| Audit Subject   | Status<br>August<br>2017 | Opinion               | Comments                                  |
|---|--------------------------|-----------------------|---|
| <b><u>AUDITS SCHEDULED TO COMMENCE IN 2016/17</u></b> |                          |                       |   |
| <b><u>2016/17 Internal Audit Plan</u></b>             |                          |                       |   |
| <b><u>Assurance Work – Key Systems</u></b>            |                          |                       |   |
| Business Rates  | Completed                | Substantial Assurance | Reported June 2017                        |
| Corporate and Ethical Governance                      | Completed                | Adequate Assurance    | Reported June 2017                        |
| <b><u>Corporate Procurement Review</u></b>            |                          |                       |   |
| <b>Ordering Compliance</b>                            | <b>Completed</b>         | <b>Not Stated</b>     | <b>See body of report for explanation</b> |
| <b><u>Departmental Procurement</u></b>                |                          |                       |   |
| <b>Public Realm Procurement</b>                       | <b>Completed</b>         | <b>Not Stated</b>     | <b>See body of report for explanation</b> |
| Housing Benefit                                       | Completed                | Substantial Assurance | Reported June 2017                        |
| Payments Received                                     | Completed                | Adequate Assurance    | Reported June 2017                        |
| Sundry Debtors  | Completed                | Improvement Required  | Reported June 2017                        |
| <b><u>Assurance Work – Other Systems</u></b>          |                          |                       |   |
| <b><u>Building Control</u></b>                        |                          |                       |   |
| Grants / Financial Assistance                         | Completed                | Adequate Assurance    | Reported June 2017                        |
| Housing Repairs and Maintenance                       | Completed                | Adequate Assurance    | Reported June 2017                        |
| Planning Policy                                       | Unallocated              |                       |   |
| Risk Management                                       | Completed                | Improvement Required  | Reported June 2017                        |
| <b><u>Assurance Work – Computer Audit</u></b>         |                          |                       |   |
| I T Governance  | Completed                | Substantial Assurance | Reported June 2017                        |
| I T Project Management                                | Draft Report             |                       |   |
| Uniform Application Review                            | Completed                | Improvement Required  | Reported June 2017                        |



| Audit Subject   | Status<br>August<br>2017 | Opinion | Comments |
|---|--------------------------|---------|----------|
| <b><u>AUDITS SCHEDULED TO COMMENCE IN 2017/18</u></b> |                          |         |          |
| <b><u>2017/18 Internal Audit Plan</u></b>             |                          |         |          |
| <b><u>Assurance Work – Key Systems</u></b>            |                          |         |          |
| Banking   | Unallocated              |         |          |
| Business Rates  | Unallocated              |         |          |
| Corporate and Ethical Governance                      | Unallocated              |         |          |
| Council Tax   | Allocated                |         |          |
| Creditors   | Allocated                |         |          |
| Departmental Procurement                              | Unallocated              |         |          |
| Procurement – Order Processes                         | Allocated                |         |          |
| Housing Benefit                                       | Unallocated              |         |          |
| Housing Rents   | Unallocated              |         |          |
| Main Accounting System                                | Unallocated              |         |          |
| Payments Received                                     | Unallocated              |         |          |
| Payroll   | Allocated                |         |          |
| Sundry Debtors  | Unallocated              |         |          |
| Treasury Management                                   | Allocated                |         |          |
| <b><u>Assurance Work – Emerging Key Projects</u></b>  |                          |         |          |
| Audits to be arranged                                 | Unallocated              |         |          |
| <b><u>Assurance Work – Other Systems</u></b>          |                          |         |          |
| Asset Management                                      | Allocated                |         |          |
| Coast Protection                                      | Allocated                |         |          |
| Corporate Counter Fraud                               | Unallocated              |         |          |

| <b>Audit Subject</b>  | <b>Status August 2017</b>       | <b>Opinion</b>               | <b>Comments</b>   |
|---|---------------------------------|------------------------------|---|
| Departmental Governance<br>Operational Services   | Fieldwork                       |                              |   |
| Departmental Staff Allowances and Time<br><b>Chief Executive and Management Support</b>                       | <b>Completed</b>                | <b>Adequate Assurance</b>    |  |
| Planning and Regeneration   | Fieldwork                       |                              |   |
| Engineering Services  | Fieldwork                       |                              |   |
| Health and Safety   | Unallocated                     |                              |   |
| Housing Repair and Maintenance<br>Kitchen and Bathroom Replacement Contract<br>Heating Refurbishment Contract | Fieldwork<br>Unallocated        |                              |   |
| <b>Insurance</b>  | <b>Completed</b>                | <b>Substantial Assurance</b> |  |
| Licensing<br><b>Member Support</b>  | Unallocated<br><b>Completed</b> | <b>Adequate Assurance</b>    |  |
| Parking Services  | Unallocated                     |                              |   |
| Princes Theatre and Essex Hall  | Fieldwork                       |                              |   |
| Regeneration and Inward Investment  | Unallocated                     |                              |   |
| Risk Management   | Unallocated                     |                              |   |
| S106  | Unallocated                     |                              |   |
| Walton – on – the – Naze Lifestyles   | Fieldwork                       |                              |   |
| <b><u>Assurance Work – Computer Audit</u></b>   |                                 |                              |   |
| Cash Receipting Application Review  | Allocated                       |                              |   |
| Human Resources / Payroll Application Review  | Allocated                       |                              |   |
| IT Governance   | Unallocated                     |                              |   |
| IT Infrastructure   | Allocated                       |                              |   |
| IT Support  | Unallocated                     |                              |   |

**Status Key**

**Unallocated**

Audit in Audit Plan, but no work undertaken yet

**Allocated**

Audit is being scoped / has been scoped and awaiting commencement

**Fieldwork**

Audit in progress

**Draft Report**

Audit fieldwork complete, but Final Report not yet issued

**Completed**

Final Report issued and audit results reported to Audit Committee

**Deferred**

Audit was in Audit Plan, but will now be undertaken in a later year. Deferred audits agreed by Audit Committee

**Delayed**

Valid request from function being audited for audit to be undertaken later than proposed

## AUDIT COMMITTEE

21 SEPTEMBER 2017

### REPORT OF CORPORATE DIRECTOR (CORPORATE SERVICES)

#### A.3 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 22 June 2017 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 where appropriate.
- Updates against actions identified within the latest Annual Governance Statement are set out in **Appendix B** with no significant issues to highlight at the present time.

###### RECOMMENDATION(S)

**That the progress against the outstanding issues be noted.**

##### 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 of the agreed actions or responses. If additional resources are required then appropriate steps will be taken including any necessary reporting requirements.

###### 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 latest Annual Governance Statement 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.

At its meeting on 22 June 2017, the Committee agreed the following comments to Cabinet:

*(b) in the light of the Grenfell Tower in Kensington, London fire disaster, the Cabinet be requested to re-assess the Council's emergency plans for the evacuation and re-housing of residents in the event of a fire, flood or other major incident and ensure that the Council's financial reserves are adequate to cope with the aftermath over a number of months; and*

*(c) the Cabinet be also requested to reassess the emergency arrangements for its own office buildings.*

Cabinet considered the Committee's comments at its 14 July meeting with a comprehensive response provided by the relevant portfolio holder. Cabinet resolved that:

*It is recognised that this is an important issue which has been brought into sharp focus by the tragic events at Grenfell Tower. It is also recognised that the Council's standing emergency planning procedures are robust and it is proposed to include a session on the Council's Emergency Planning arrangements at a future All Member's Briefing.*

In respect of regular updates in respect of the legionella issue experienced at the Frinton and Walton Lifestyles facility, the Council is still awaiting the Health and Safety Executive's final report and recommendations. Notwithstanding the above, the Council has already undertaken a range of actions / activities in the interim period which were reported to the Committee at its 22 June 2017 meeting. Once the Health and Safety executives report is

received, any further improvements required will be reviewed and a further update provided to the Audit Committee.

As reported to the Committee in June, Internal Audit will undertake an independent audit of health and safety later in the financial year, and this will examine the robustness of the revised arrangements that have been introduced corporately for the management of the Council's health and safety risks and responsibilities, along with the arrangements for support to services when undertaking improvement actions. This audit will also include a review of the improvement actions taken regarding the specific issues that had been identified including those arising from the final recommendations from the Health and Safety Executive.

The Committees 2017/18 work programme currently includes two items scheduled for its 21 September meeting. However it has not been possible to include them on the agenda for September for the following reasons:

- **Counter Fraud Strategy / Update**

A dedicated Fraud and Risk Team was established in July this year with the recruitment of officers to newly created roles being a key activity in the immediate term. Recruitment to vacant posts was completed in early September.

Alongside the above, the team have taken the practical approach of making an immediate impact via activities such as commencing a housing tenancy 'audit' and making significant contributions to the on-going fraud investigation relating to Princes Theatre income that Members have been made aware of.

However the Service continues to work on establishing a corporate counter fraud framework reflecting best practice guidance, which will include a Counter Fraud Strategy. Therefore given the timing of establishing a dedicated Fraud and Risk Team and the Princes Theatre investigation, the necessary reports / strategy will not be available until later in the financial year.

- **Annual Review of the Risk Based Verification Policy**

Over the last year, the Revenues and Benefits Service has experienced significant issues with the third party software that uses a complex mathematical calculation to risk score claims for Housing Benefit and Local Council Tax Support in terms of the potential for fraud and error. The risk score then determines the level of checks necessary in processing the claim etc. The software provider has been given the opportunity to provide the necessary solution to the issues being experienced but in July it was decided to terminate the contract with them as they were unable to fix the problem.

The Council is therefore now exploring the options available such as identifying an alternative software provider or taking a manual approach to risk scoring.

A manual approach has had to be taken while other options are explored, but it is proving workable whilst remaining compliant with the Department for Works and Pensions (DWP) requirements.

Remaining compliant with DWP's requirements during this interim period is based on the principle of assuming a higher risk profile of a new claim or change of

circumstance than it would previously have been allocated using the electronic approach, following which the appropriate level of checks can be undertaken.

It is proposed to revise the existing Risk Based Verification Policy and present it to the Committee at its December 2017 meeting to enable it to reflect the outcome from the exploration of the various options available.

#### **BACKGROUND PAPERS FOR THE DECISION**

None

#### **APPENDICES**

**Appendix A** – Table of Outstanding Issues (September 2017) – General.

**Appendix B** - Table of Outstanding Issues (September 2017) - Annual Governance Statement Actions



**AUDIT COMMITTEE - Table of Outstanding Issues (September 2017)**

| <b>GENERAL</b>                               |   |  |   |   |                             |
|--|---|--|---|---|-----------------------------|
| <b>Governance Area</b>                       | <b>Activity / Subject</b>                                       | <b>Recommendation / Issue</b>  | <b>Lead Service</b>                       | <b>Progress / Comments</b>  | <b>Status - Target Date</b> |
| <b>Risk Management</b>                       | <b>Effective Management of the Council's Property Portfolio</b> | Following the Audit Committee's training session on 23 October 2014, Officers were requested to keep the Committee up to date with the property risk audit that is to be undertaken in partnership with the Council's insurers.  | Head of Finance and Revenues and Benefits | The Council's insurers have recently appointed a risk engineer who is compiling a question set around property risk areas.<br><br>The intention is to issue the question set and then follow this up with a meeting to discuss in more detail and then provide any guidance and assistance that is necessary. This issue is being coordinated by the Council's Fraud and Risk Manager and will also involve the Council's Head of Building Services with the associated activities planned to be undertaken during the Autumn.  | <b>December 2017</b>        |
| <b>The Council's Governance arrangements</b> | <b>Procurement / Contract Arrangements</b>                      | At its 22 September 2016 meeting, the Committee considered the Table of Outstanding Issues Report, following which it resolved that in light of the recent experiences in connection with the public conveniences contract the Council reviews its current procurement/contract processes to identify if such issues could be prevented in the future. | Head of Finance and Revenues and Benefits | The Council's procurement rules will be revisited by Legal and Finance as part of next review of the constitution which will refresh / update the various aspects of procurement, and will include a response to this issue, such as reviewing termination options relevant to the contract rather 'standard clauses' and the use of performance bonds to protect the Council as far as reasonably possible.<br><br>The above approach will need to ensure the right balance between protecting the Council whilst not discouraging contractors from bidding for Council contracts. | <b>December 2017</b>        |

|  |   |  |   |   |                             |
|--|---|--|---|---|-----------------------------|
| <p><b>The Council's Governance arrangements</b></p> <p style="text-align: center;">Page 22</p> | <p><b>Procurement / Contract Arrangements</b></p>     | <p>At its meeting on 22 September 2016, the Committee were presented with an update against actions identified as part of the Seafronts Investigation Action Plan. Outstanding actions are as follows:</p> <p>The centralisation of repair / maintenance type work to reduce the potential for untrained staff to become involved in the procurement process continues to be reviewed as there may be a number of potential advantages from this approach.</p> <p>Guidance / Mandatory training remains under development which will include the following key points:</p> <ul style="list-style-type: none"> <li>* Actions to protect the Council from fraud</li> <li>* Expectation of officers if covering another officer's duties where procurement is undertaken</li> <li>* The nature and level of assistance that can be provided to people / organisations bidding for Council work</li> <li>* Disaggregation of works to avoid procurement procedure rules is not permitted</li> <li>* Checks to undertake ensure potential contractors have the capacity and financial stability to deliver the Council's requirements</li> <li>* What activities need to be completed before payment is released to contractors / suppliers</li> <li>* The correct coding of expenditure within the financial systems</li> <li>* Contractors not to be paid in advance unless contractually obliged to do so</li> <li>* 'Spot' checks required by Senior Managers to ensure rules / guidance is being adhered to</li> </ul> | <p>Head of Finance and Revenues and Benefits</p>                | <p>A training guide was finalised and published during March 2017.</p> <p>The position has not changed to that reported to the Committee in June - A number of recommendations and actions are expected to be identified following a corporate review of procurement that is currently being undertaken by Internal Audit. Therefore it is proposed to wait for the outcomes from this piece of work before finalising additional training. This approach will help to ensure that all necessary issues can be covered within the training that will be provided. This will also support the proposed approach of ensuring the training reflects real life examples of the issues identified rather than just highlighting the requirements of the constitution, which will therefore provide practical advice to officers involved in procurement activities.</p> <p>It is also still proposed to place restrictions within the Council's ordering / procurement processes to ensure only those officers who have undertaken the necessary training and confirmed that they have read and understood any associated guidance can place orders and procure goods and services on behalf of the Council.</p> | <p><b>December 2017</b></p> |
| <p><b>The Council's Governance arrangements</b></p>  | <p><b>Effective Monitoring of S106 Agreements</b></p> | <p>At its 16 March 2017 meeting, the Committee considered a S106 Update Report, following which it resolved that:</p> <ul style="list-style-type: none"> <li>(a) the progress in relation to the Section 106 audit be noted;</li> <li>(b) a follow-up audit be undertaken in March 2018; and</li> <li>(c) the Section 106 Audit be added to the Table of Outstanding Issues</li> </ul>   | <p>Head of Planning Services / Audit and Governance Manager</p> | <p>A follow up audit is included within the Internal Audit Plan.</p> <p>The following provides an update on a number of specific actions being undertaken within the service:</p> <ul style="list-style-type: none"> <li>1) Successful recruitment (2 year fixed term) has now been completed with an appointment made to a technician post that supports the administration of S106 agreements.</li> <li>2) IT Services are in discussion with the relevant software provider to support the delivery of the necessary system to manage / coordinate S106 arrangements.</li> </ul>   | <p><b>March 2018</b></p>    |

## AUDIT COMMITTEE - Table of Outstanding Issues (September 2017)

### ANNUAL GOVERNANCE STATEMENT ACTIONS

| ANNUAL GOVERNANCE STATEMENT ACTIONS  |   |  |
|--|---|--|
| Governance Issue   | Action  | Current Position / Update  |
| <b>Sustainable Resource Deployment: Achievement of Savings Needed over the Medium Term</b> | 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 planned cuts in Government funding to the Council over the period 2017/18 to 2019/20, with expected savings of £3.4m being required. | A long term financial sustainability plan / 10 year forecast was agreed by Cabinet on 5 September 2017. An associated delivery plan is currently being developed along with considering how performance against the forecast can be effectively reported to Members on a regular basis.  |
|  | To continue to maintain strong governance arrangements as the Council transforms the way in which it provides and delivers its services.  | Agreement to the office rationalisation business plan is scheduled for September 2017 following which work can get underway to deliver this major project.<br><br>A major digital transformation project is underway with an associated business / delivery plan and wider digitisation framework scheduled for completion in October / November 2017. |
| <b>Informed Decision Making: Garden Communities</b>  | To continue to play a key role in the development of the Garden Communities Project including key governance structures and financial arrangements set against open and transparent decision making.  | A project update was reported to Cabinet on 5 September 2017 setting out the current position and next steps to deliver of this major project with key partners.   |
| <b>Working with Partners and Other Third Parties: Jaywick Sands</b>                        | To continue to work with Essex County Council and other partners to develop options for residential and other development. To develop options for a housing company and lead on the set up of a company.  | Work remains in progress to take this major project forward with an update planned to be reported to Members in the second half of the year. In terms of more specific actions being taken, the development of a number of starter homes in Jaywick Sands is in progress.  |
| <b>Other Major Issues</b>  | To ensure deliverability of projects without impact on the day to day operations of the Council.  | This will form part of business cases / plans when developing significant projects.  |

|  |  |  |
|--|--|--|
|  | <p>To develop and maintain a robust corporate approach to delivery against the Council's health and safety responsibilities.</p> | <p>Health and safety responsibilities have recently been brought together with risk management under the leadership of the recently appointed Fraud and Risk Manager within a dedicated team. Development of a robust corporate approach to delivery against the Council's health and safety responsibilities forms a key focus for this dedicated team over the second half of 2017/18.</p> |
|--|--|--|