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Audit Committee

26 July 2018

**MINUTES OF THE MEETING OF THE AUDIT COMMITTEE,
HELD ON THURSDAY, 26TH JULY, 2018 AT 7.30 PM
IN THE ESSEX HALL, TOWN HALL, CLACTON-ON-SEA, CO15 1SE**

Present:	Councillors Coley (Chairman), Poonian (Vice-Chair), Alexander, Bray and Hones
Also in Attendance:	Chris Hewitt (Audit Manager – Ernest & Young)
In Attendance:	Richard Barrett (Head of Finance, Revenues and Benefits Services), Craig Clawson (Acting Audit and Governance Manager), Clare Lewis (Fraud and Risk Manager) and Debbie Bunce (Legal and Governance Administration Officer)

36. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

There were no apologies for absence received on this occasion.

37. MINUTES OF THE LAST MEETING

The minutes of the meeting of the Committee held on 22 March 2018 were approved as a correct record and signed by the Vice-Chairman as the Chairman had not been present at the last meeting.

38. DECLARATIONS OF INTEREST

There were none.

39. QUESTIONS ON NOTICE PURSUANT TO COUNCIL PROCEDURE RULE 37

There were none.

40. REPORT OF THE ACTING AUDIT AND GOVERNANCE MANAGER - A.1 - REPORT ON INTERNAL AUDIT - MARCH 2018 TO JUNE 2018 AND THE ANNUAL REPORT OF THE ACTING AUDIT AND GOVERNANCE MANAGER

REPORT ON INTERNAL AUDIT FOR MARCH TO JUNE 2018 AND INTERNAL AUDIT PLAN PROGRESS 2017/18

The Council's Acting Audit and Governance Manager (Craig Clawson) provided a periodic report on the Internal Audit function for the period of March to June 2018.

The Acting Audit and Governance Manager informed the Committee that 92% of the 2017/18 Internal Audit Plan had been completed as at 31 March 2018 and 99% by 30 June 2018. Fifteen audits had been completed in the quarter of which thirteen had been given Adequate Assurance. One audit had been rated Substantial Assurance and one audit had been rated Improvement Required. No audits had been rated Significant Improvement Required.

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

- (i) Quality Assurance;
- (ii) Health and Safety audit;
- (iii) Section 106 update; and
- (iv) Management response to Internal Audit Findings.

OPINION OF THE ACTING AUDIT AND GOVERNANCE MANAGER

The Committee was reminded that as set out in the Public Sector Internal Audit Standards (PSIAS) there was a requirement under PSIAS 2450 that the Chief Audit Executive must provide an annual report to the Audit Committee, timed to support the Annual Governance Statement and that this must include:

- *an annual internal audit opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (i.e. the control environment);*
- *a summary of the audit work from which the opinion is derived (including reliance placed on work by other assurance bodies); and*
- *a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme.*

It was reported that the Internal Audit function undertook a risk based programme of audits each year in order to provide the Council and its Audit Committee with assurance on the adequacy of its system of internal control, governance and risk management arrangements.

Members recalled that a qualified opinion had been provided in 2016/17 based on a number of significant issues being identified within some of the core activity areas of the Council. However, the Acting Audit and Governance Manager was pleased to report that based on the work completed in 2017/18, significant work had been undertaken to ensure that improvement action had been implemented in all of the areas where significant exposure to risk had been reported. He had therefore given an unqualified opinion of Adequate Assurance.

The corrective action taken by Officers with regard to the issues raised by Internal Audit had aided the improvement / maintenance of the control and governance framework. Robust mechanisms were now in place to monitor progress of corrective action, with follow up audits scheduled as necessary.

It was reported that Internal Audit had been working with services on a consultancy basis to support the implementation of new processes and to ensure that all relevant employees had the appropriate training to competently carry out their role. Procurement, Risk Management and Health and Safety were the three areas where this type of work had been undertaken.

The Committee was informed that in 2017/18, only two audits had received an overall audit opinion of "Improvement Required" where significant issues had been identified. Those audits were Walton-on-the-Naze Lifestyles and Health and Safety.

As Health and Safety issues had already been reported above, the Acting Audit and Governance Manager now reported on the high priority issues and mitigating actions for Walton on the Naze Lifestyles in respect of the following matters:-

- (i) Card Payments – PCI Compliance;
- (ii) Unauthorised Refunds; and
- (iii) Inadequate record of Refunds.

UPDATE ON OTHER MATTERS

The Acting Audit and Governance Manager also gave an update to the Committee in respect of:-

- a) Internal Audit Plan Progress 2018/19;
- b) External Quality assessment Update; and
- c) Internal Audit Charter.

The Chairman requested the Acting Audit and Governance Manager to provide a glossary of terms at the beginning of each report in future.

Following discussion and questions by Members, it was:

RESOLVED that the contents of the report be noted.

41. REPORT OF THE DEPUTY CHIEF EXECUTIVE - A.2 - EXTERNAL AUDITOR'S AUDIT RESULTS REPORT 2017/18

The Committee had before them a report (A.2) which had presented the following:

- The External Auditor's Audit Results Report for the year ending 31 March 2018, and Letter of Representation for Members' consideration and approval in order 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 2017/18 for Members' consideration and approval for publication by the end of July 2018; and
- A revised Annual Governance Statement 2017/18 for Members' approval.

Ernest and Young's Audit Manager (Chris Hewitt) went through various sections of the report and answered questions by Members.

The Council's Head of Finance, Revenues and Benefits Services also responded to questions raised by Members.

Following discussion, it was **RESOLVED**:

1. That in respect of the Audit Results Report for the year ended 31 March 2018, the Audit Committee:
 - (a) notes the contents of the report including the adjustments to the Statement of Accounts 2017/18 as set out on page 19 of that report;

- (b) subject to (a) above, approves the management representation letter set out as Appendix B to the External Auditors Audit Results Report 2017/18;
 - (c) subject to (b) above, authorises the Head of Finance, Revenues and Benefits and the Audit Committee Chairman or Vice-Chairman to sign the management representation letter for forwarding to the External Auditor;
 - (d) subject to (b) and (c) above, approves for publication the audited Statement of Accounts for 2017/18, amended for the adjusted items identified; and
 - (e) approves a delegation to the Head of Finance, Revenues and Benefits in consultation with the Chairman or Vice-Chairman of the Audit Committee to make amendments to the management representation letter for forwarding onto the External Auditor and/or Statement of Accounts 2017/18 before publication, if further changes are recommended by the External Auditor following the completion of the outstanding areas of their work.
2. That in respect of the Council's Annual Governance Statement 2017/18, the Audit Committee:
- (a) approves the revised Annual Governance Statement set out in Appendix A; and
 - (b) authorises, subject to 2(a) above, the Chief Executive and Leader of the Council to sign the Annual Governance Statement set out in Appendix A.

42. REPORT OF THE DEPUTY CHIEF EXECUTIVE - A.3 - CORPORATE RISK UPDATE

The Fraud and Risk Manager (Clare Lewis) presented to the Committee a report on the updated Corporate Risk Register (item A.3).

It was reported that, within the period under review, one new risk had been added to the register, no risks had been removed, two risk scores had been amended and there were no items that were currently under review. In addition six risks had been amended.

A new risk had been identified in respect of 1d Ineffective Cyber Security Physical and Application (software) based protection management.

Residual Risk Scores had been amended in respect of:-

- (1) 2d Building Council Homes; and
- (2) 2h Essex Family / Family Solutions.

Risks had been amended in respect of –

- (1) 1a Failure to effectively manage assets;
- (2) 1b Catastrophic IT Network Failure
- (3) 1c Ineffective Communication / Management of Information;
- (4) 2d Building Council Homes;
- (5) 2h Essex Family / Family Solutions; and
- (6) 5a Financial Strategy.

It was reported that during the year a review had been carried out by the Council's Internal Audit Team relating to Risk Management. The following table set out the recommendations identified and the current position against each of those actions:

Agreed Action	Current Position
<p>Management Team to promote the importance of operational risk management within the organisation and ensure that Senior Managers implement a process for identifying and mitigating risks in coordination with the Corporate Fraud and Risk Manager.</p> <p>One to one meetings will continue to take place between Senior Managers and the Corporate Fraud and Risk Manager to identify and record key operational risks within their service areas. Support to be provided by Internal Audit if required.</p>	<p>Management Team are currently working with the Fraud and Risk Manager to effectively promote the importance of operational risk management within the Council. The Corporate Fraud and Risk Manager will be attending Management Team meetings on a quarterly basis and provide monthly updates.</p> <p>One to one meetings have started to be carried out with senior managers and reviews of the Council's departmental risk registers are being undertaken.</p> <p>Any gaps identified will be included in the next corporate risk register update.</p> <p>Update to be provided at the January 2019 meeting of the Committee.</p>
<p>Once all departmental risk registers are implemented, the Corporate Fraud and Risk Manager is to embed a quality control process for monitoring business risks and verifying the recorded mitigating controls. This should involve process walkthrough's, reviews of supporting documentation and assessments of target dates / resources required to implement controls</p>	<p>The Corporate Fraud and Risk Manager have arranged one to one meetings with senior managers to discuss business risks, once identified the findings will be reviewed on a more regular basis.</p> <p>Update to be provided at the January 2019 meeting of the Committee.</p>

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 discussion, the Committee requested that Officers review a number of risks to explore whether the following should be treated as separate risks within the register given their potential impact on the Council:

- The delivery of the Waste and Recycling Service given recent events elsewhere in the country and the failure of large contractors nationally.
- The delivery of the Planning Service as loss of key staff could contribute towards the failure to comply with legislative requirements.
- Emergency Planning arrangements in respect of flooding and the potential for fraud to be committed against the Council if a large scale event occurred.

After consideration of this item it was **RESOLVED** that the contents of the updates provided to the current Risk Register be noted and that Officers review the items identified above before the risk register is reported to the Committee again in January 2019.

43. REPORT OF THE DEPUTY CHIEF EXECUTIVE - A.4 - ANTI-FRAUD AND CORRUPTION STRATEGY

The Fraud and Risk Manager (Clare Lewis) presented to the Committee an updated Anti-Fraud and Corruption Strategy (item A.4).

The Committee was informed that the Council's Fraud and Corruption Strategy had been last updated in 2012. Following various changes, including the recent establishment of a dedicated Corporate Fraud Team within the Council, significant changes to the existing Strategy were now required.

Therefore an updated Anti-Fraud and Corruption Strategy was before the Committee (as an appendix to item A.4 of the Report of the Deputy Chief Executive (Corporate Services)) which incorporated the various elements of CIPFA's code of practice on managing the risk of fraud and corruption which had previously been adopted by the Committee at its meeting held on 22 March 2018.

It was reported that, subject to the Committee's approval, the Strategy would be circulated to various stakeholders as part of a consultation process before final recommendations were presented to the Committee later in the year.

The Committee recommended a number of amendments to be included before the document was circulated as part of the consultation process.

It was **RESOLVED** that the updated Anti-Fraud and Corruption Strategy be approved for consultation with relevant stakeholders.

44. REPORT OF THE DEPUTY CHIEF EXECUTIVE - A.5 - TABLE OF OUTSTANDING ISSUES

There was submitted a report by the Council's Deputy Chief Executive (Corporate Services) (A.5) which presented to Members the progress against outstanding actions identified by the Committee.

It was reported that the Table of Outstanding Issues had been reviewed and updated since it was last considered by the Committee at its meeting held on 22 March 2018.

It was further 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.5 of the Report of the Deputy Chief Executive (Corporate Services), or elsewhere on the agenda where appropriate.

In addition, the Committee was reminded that following their audit work in respect of the Housing Benefit subsidy claim for 2016/17, the External Auditor had made the following general recommendation, which had been reported to the Committee at its 22 March 2018 meeting:

[The Council to] perform early extended testing in those areas where errors were identified in 2016-17, to ascertain the extent of similar errors arising in 2017-18.

It was reported that the above was an on-going action each year and remained a key element of the day-to-day work of the Revenues and Benefits Service to eliminate errors wherever possible. The outcome from the audit of the 2017/18 Housing subsidy claim would be reported to the Committee later in the year.

It was **RESOLVED** that the Committee notes the progress on the outstanding issues.

The meeting was declared closed at 8.55 pm

Chairman

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