

**MINUTES OF THE MEETING OF THE AUDIT COMMITTEE,
HELD ON MONDAY, 29TH JULY, 2019 AT 10.30 AM
IN THE CONNAUGHT ROOM - TOWN HALL, STATION ROAD, CLACTON-ON-SEA,
CO15 1SE**

Present:	Councillors Coley (Chairman), Alexander (Vice-Chairman), Chapman, Codling (items 7 (part) - 8 only), Miles and Placey
In Attendance:	Richard Barrett (Head of Finance, Revenues and Benefits Services & Section 151 Officer), Craig Clawson (Acting Audit and Governance Manager), Ian Ford (Committee Services Manager & Deputy Monitoring Officer) and Clare Lewis (Fraud and Risk Manager)
Also in Attendance:	Aphrodite Lefevre (Director & Engagement Lead) and Numan Indika (Audit Manager) [both representing BDO LLP the Council's External Auditors]

1. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies for absence were submitted on behalf of Councillor Steady (with Councillor Chapman substituting).

2. MINUTES OF THE LAST MEETING

The minutes of the previous meeting of the Committee, held on 28 March 2019, were approved as a correct record and signed by the Chairman.

3. DECLARATIONS OF INTEREST

There were no declarations of interest made on this occasion.

4. QUESTIONS ON NOTICE PURSUANT TO COUNCIL PROCEDURE RULE 38

There were none on this occasion.

5. REPORT OF THE ACTING AUDIT AND GOVERNANCE MANAGER - A.1 - PERIODIC REPORT ON INTERNAL AUDIT FUNCTION: MARCH TO JUNE 2019 AND THE ANNUAL REPORT FOR 2018/2019

There was submitted a report by the Council's Acting Audit and Governance Manager (Craig Clawson) (report A.1) which provided a periodic update on the Internal Audit function for the period March 2019 to June 2019, together with his Annual Report for 2018/19 as required by the Public Sector Internal Audit Standards (PSIAS). The report A.1 was split into four sections as follows:-

- (1) Internal Audit Plan Progress 2018/19;
- (2) Annual Report of the Acting Audit and Governance Manager;
- (3) Internal Audit Plan Progress 2019/20; and
- (4) Internal Audit Charter.

(1) INTERNAL AUDIT PLAN PROGRESS 2018/19

It was reported that a total of nine audits had been completed in the March 2019 to June 2019 period. As at 31 March 2019, 87% of the audit plan had been completed. The Internal Audit Plan was a rolling programme and there was always an expectation for some audit reviews to progress into the next financial year. However, resourcing issues had challenged the team's capacity to deliver a higher percentage of the plan by 31st March 2019.

The Committee was informed that, as at the 30 June 2019, 97% of the plan had been completed. Only two audits remained outstanding, with the majority of fieldwork on those completed. The audits still in progress were Housing Repairs and Maintenance and Housing Allocations. With the addition of an external resource the team had been able to catch up with the audits from the 2018/19 whilst the external contractor commissioned on a daily rate completed some of the 2019/20 audits.

Members were reminded that the PSIAS required an audit opinion on Risk Management and therefore a corporate review of the Council's risk management arrangements had been undertaken during the year and was ongoing. Senior Management continued to monitor strategic risks on a regular basis with the Audit Committee's input throughout the year. This assurance allowed Internal Audit to work with Senior Management and the Council's Fraud and Risk Manager to concentrate on reviewing the overall risk appetite of the Council and to support implementation of departmental risk management at an operational level.

Quality Assurance

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

Resourcing

As previously reported, the Internal Audit Team had been operating with reduced capacity due to one Officer being on long term sick leave and another on maternity leave. The capacity of the Internal Audit Team was currently 2 FTE with an apprentice supporting where she could. The Audit Committee had previously suggested that Officers explore the use of an external contractor or employ a temporary agency Auditor for a fixed term.

The Committee was informed that Officers had explored both scenarios and had decided that the best way forward was to utilise a framework set up by Croydon London Borough Council in partnership with a professional services company, Mazars LLP. This Council had commissioned work from Mazars to support the team in delivering a number of audits within the 2019/20 Internal Audit Plan.

Members were also made aware that the Internal Audit team was also currently being restructured. The consultation period for all Officers within the team had now passed. This would allow the Council to recruit to a vacant Auditor post and to bring the establishment back to around 80% capacity.

Outcomes of Internal Audit Work

The standards required the Acting Audit and Governance Manager to report to the Audit Committee on significant risk exposures and control issues. Since the last periodic report nine audits had been completed and the final report issued. Of those nine completed audits, one had received a 'Substantial Assurance' audit opinion and six had received an 'Adequate Assurance' audit opinion. One audit had not required an opinion to be issued and the remaining audit had received an 'Improvement Required' audit opinion. That audit had been the one undertaken in relation to Inventory Management / Stock Control management processes across the Council.

This had never been done before on a Council wide basis. However, in 2018/19 it had been decided to undertake an arm's length audit to review processes only without detailed testing to identify any inconsistencies and add value by promoting good practice across all departments. A good practice guide had subsequently been developed which would be distributed to all relevant areas of the Council and would be available on the Intranet. Unfortunately, there had been a significant issue identified with required management actions relating to more than one department which was that some departments had a rudimentary stock control system or did not have a working inventory stock control system in place. The required actions were:-

- *To use the generic inventory management spreadsheets provided by Internal Audit or procure a bespoke inventory control system that works more flexibly with the service need; and*
- *Heads of Service with stocks and stores to review the best practice guide and distribute to their relevant Officers.*

Management Response to Internal Audit Findings

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. There were no high severity issues currently outstanding.

Update on previous significant issues reported

Facilities Management (FM)

- *A fire evacuation testing process is to be introduced that adheres to Health and Safety regulations while considering the sensitivity of the services provided to the public. Liaise with Health and Safety to establish an acceptable approach.*

Although there were no significant actions outstanding in this period Members were made aware that the issue reported above regarding fire evacuation testing at the Crematorium at Weeley had now been resolved. The crematorium now had a fire evacuation plan in place that had been reviewed and approved by the Council's Health and Safety Team.

(2) ANNUAL AUDIT REPORT OF THE ACTING AUDIT AND GOVERNANCE MANAGER

The Committee was aware that 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. 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 was 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.

Members were reminded that an unqualified opinion of adequate assurance had been provided in 2017/18 due to the control improvements implemented by departments. So far to date all significant issues identified within the 2018/19 financial year had been addressed and mitigated. The immediate corrective actions by operational teams had provided assurance that the control environment was being monitored and direct action taken when significant issues had been identified.

Internal Audit continued to work with services on a consultancy basis to support the implementation of new processes, identify and analyse root cause if necessary and ensure that all relevant employees had the appropriate training to competently carry out their role. Transformation, Project Management, Risk Management and Financial Resilience were some of the areas where this type of work had been undertaken and continued to collaborate resources.

In 2018/19 to date, only three audits from a total of 33 undertaken had received an overall audit opinion of "Improvement Required" where high severity issues had been identified. Those audits were Development Management, Facilities Management and Inventory Control. All significant issues were reported to the Audit Committee with required improvement actions throughout the year in order to provide a continuous update on the Council's control environment, governance arrangements, material issues identified and improvement actions.

The Committee was informed that the overall direction of travel regarding the internal control environment since 2017/18 had not changed. In some areas it had weakened and in others it had improved; however, as the majority of audits in 2018/19 had continued to receive an adequate or substantial assurance opinion it was reasonable to suggest that there had not been a considerable deterioration in internal control and operational processes within the year.

It was reported that governance arrangements and internal controls had been evaluated in all audits within the plan, albeit with varying levels of scope. Consultancy work was continuing in respect of risk management, working with the Fraud and Risk Manager to improve processes at a departmental level. Senior Management continued to review strategic risks on a regular basis within Management Team and the Corporate Risk Register was reviewed bi-annually with any feedback reported to Management Team for their consideration.

Members were made aware that the opinion of the Acting Audit and Governance Manager was drawn from all of the information reported above, external reviews carried out throughout the year from other assurance providers and through the ongoing work in supporting Senior Management and Services in delivering the Council's objectives and vision.

The Internal Audit function was expected to commission an independent assessment on compliance with the PSIAS that had been set by the Institute of Internal Auditors and adopted by the Chartered Institute of Public Finance and Accountancy every five years. Internal Audit had received such an independent report in 2017/18 which had concluded that there was conformance with the standards. Although this assessment was undertaken, the Internal Audit function was also obliged to complete an annual Quality Assurance and Improvement Programme which was a self-assessment questionnaire against the PSIAS. Work remained on-going in respect of this year's assessment with the final position planned to be reported to the September 2019 meeting of the Committee.

It was considered that the internal control environment continued to remain stable with no significant changes from 2017/18, an open dialogue with Senior Management on risk remained in place and a generally sound system of internal control had been assessed across the majority of the Council's operational areas. Therefore, an overall unqualified opinion of Adequate Assurance could be provided.

(3) INTERNAL AUDIT PLAN PROGRESS 2019/20

It was reported that a total of 14 audits from the 2018/19 Internal Audit Plan had been allocated, were in progress or fieldwork had been completed. Final Reports were yet to be sent out for Quarter One audits in 2019/20. Appendix B to the report provided an update on the status of each audit to date within the 2019/20 Internal Audit Plan. There were no significant issues or particular areas of concern to report at this time and a further update on progress against the 2019/20 Internal Audit Plan would be presented to the Committee in September 2019.

Members were informed that Internal Audit were working a lot more on a consultative basis with services to ensure internal control and governance arrangements were incorporated as an integral part of a project, system implementation or when re-engineering a process. This had helped build better working relationships with departments as it added value early on in a process rather than after the event. Therefore Internal Audit would undertake more reviews in this capacity within the 2019/20 financial year.

(4) INTERNAL AUDIT CHARTER

Members were made aware that a requirement of the PSIAS was for the Audit Committee to review and approve the Internal Audit Charter on an annual basis. The Internal Audit Charter defined the purpose, authority and responsibility of the Internal Audit function within the Council and set out the principles which the Internal Audit function must adhere to.

The Committee was informed that the Charter had last been updated and approved in September 2018. Although it was less than a year since its last review, it was felt that with a number of new members on the Committee it would be of benefit to review the Internal Audit Charter at this meeting. A copy of the Internal Audit Charter was before Members as Appendix C to the report.

The Council's Head of Finance, Revenues and Benefits (Richard Barrett) referred to the restructuring of the Internal Audit section and informed the Committee that Craig Clawson had been appointed to the post of Internal Audit Manager. The duties of that

post would include carrying out the statutory roles and functions as the Council's designated 'Head of Internal Audit'.

Having considered and discussed the contents of the Acting Audit and Governance Manager's report and its appendices it was:-

RESOLVED that –

- (a) the contents of the report and its appendices be noted; and
- (b) consideration of the Internal Audit Charter be deferred until the September 2019 meeting of the Committee when it is due for its annual review.

6. REPORT OF THE DEPUTY CHIEF EXECUTIVE (CORPORATE SERVICES) - A.2 - CORPORATE RISK UPDATE

There was submitted a report by the Council's Deputy Chief Executive (report A.2) which presented for the Committee's consideration the updated Corporate Risk Register.

Members were reminded that the Corporate Risk Register was regularly updated and presented to the Committee every six months with the last such occasion being in January 2019. The following table summarised the position at the end of the latest review period with updated information provided within the Register (Appendix B to the report) where necessary:-

Item	Number
New Risks Identified	0
Risks Removed	0
Risk Score Amended	0
Risks Under Review	0
Risks Amended	3

The Risks amended were:-

- (1) Risk 2c – Community Leadership Projects = Action owner amended due to an Officer leaving the Council.
- (2) Risk 1c – Ineffective communication/management of information = Update on the current situation provided.
- (3) Risk 6a – Loss of sensitive and/or personal data through malicious actions/loss due to theft and/or hacking = Update on the current situation provided.

It was reported that during 2017/18 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 action:

Agreed Action	Current Position
Management Team to promote the importance of operational risk management	COMPLETED - As agreed by Management Team, the Fraud and

<p>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>Risk Manager continues to effectively promote the importance of operational risk management within the Council and attends Management Team meetings on a quarterly basis to provide timely updates.</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>COMPLETED - Reviews of the services departmental risk assessments have now been carried out by the Council's corporate Fraud and Risk Manager.</p> <p>The Corporate Fraud and Risk Team will continue to review these documents and ensure they are updated at regular intervals by Senior Managers and provide any feedback to internal audit should it be deemed necessary.</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>Reviews of the departmental risk assessments during this process were carried out to consider if the councils business risks were being addressed and to provide help and support where necessary and assist in implementing control measures if a need was identified.</p> <p>This action has now taken place and feedback has been given to internal audit in relation to this outstanding matter.</p> <p>Consideration is being given to the format of the current Corporate Risk Register to better reflect the actions of officers and TDC over the financial year, including review dates.</p> <p>The proposed alternative format is provided as Appendix C, using three existing risks as examples and reflecting on discussions with the Council's insurer / risk advisor.</p>

Having considered the information provided, including the proposed alternative Risk Register format (as set out in Appendix C to the report) it was:-

RESOLVED that –

- (a) the updates provided to the current Corporate Risk Register be noted; and
- (b) the alternative Risk Register format, as set out as Appendix C to item A.2 of the Report of the Deputy Chief Executive, be approved.

7. REPORT OF THE DEPUTY CHIEF EXECUTIVE (CORPORATE SERVICES) - A.3 - EXTERNAL AUDITOR'S AUDIT COMPLETION REPORT 2018/19

There was a report submitted by the Council's Deputy Chief Executive (report A.3) which presented:-

- (i) the Annual Governance Statement 2018/19 for approval;
- (ii) the External Auditor's Audit Completion Report for the year ended 31 March 2019 (which included the management representation letter, for 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; and
- (iii) the Statement of Accounts 2018/19 for consideration and approval for publication by the end of July 2019.

(1) ANNUAL GOVERNANCE STATEMENT 2018/2019

The Committee was informed that the Annual Governance Statement 2018/2019 had been revised to include the final opinion of the Acting Audit and Governance Manager. Appendix A to the Officer's report set out the revised Annual Governance Statement 2018/19.

Therefore, the Annual Governance Statement was presented to the Committee for consideration and approval which included the necessary authorisation for the Chief Executive and the Leader of the Council to sign it.

(2) STATEMENT OF ACCOUNTS 2018/2019 AND EXTERNAL AUDITOR'S AUDIT COMPLETION REPORT

It was reported that the pre-audited Statement of Accounts for 2018/19 had been approved for publication by the Council's Section 151 Officer (the Head of Finance, Revenues and Benefits) at the end of May 2019. In addition, the pre-audited Annual Governance Statement 2018/19 had been approved for publication by the Council's Management Team also at the end of May 2019.

Members were made aware that each year the Council's External Auditors were required to prepare an annual report setting out the outcomes from their review of the Statement of Accounts (including the Annual Governance Statement) and the Council's value for money arrangements. The Audit Committee was then required to consider the content of that annual report and approve for publication the final audited Statement of Accounts and Annual Governance Statement.

The Committee was advised that a draft management representation letter which sets out certain management representations was included as Appendix D to the External Auditor's Audit Completion Report. The Audit Committee were also required to separately approve this letter and to authorise the Head of Finance, Revenues and

Benefits and the Chairman (or in his absence the Vice-Chairman) of the Committee to sign it before it was forwarded on to the External Auditor.

Once the above tasks were completed the External Auditor could conclude the audit by finalising and formally issuing their audit opinion along with the certification of the accounts.

Although the External Auditor had substantially completed their audit of the 2018/19 accounts a small number of activities remained outstanding (as set out on page 35 of the External Auditor's Audit Completion Report). However, the External Auditor currently planned on issuing an unmodified audit opinion in respect of the Financial Statements and on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.

However, one adjustment had been required (details were set out on pages 19 to 20 of the Audit Completion Report) and there had also been an unadjusted item (as set out on pages 17 and 18 of the Audit Completion Report). Both of those issues were outside of the Council's control as they related to pension fund adjustments. It was, however, important to highlight that those items did not have a direct impact on the overall 2018/19 financial position of the Council.

The Committee was further informed that, in respect of other matters arising, the External Auditor had made a recommendation regarding the collation / declaration of related party transaction information involving Members. Further details along with an associated recommendation were set out on page 27 of their Audit Completion report. This would be reviewed by Officers for implementation as part of the Statement of Accounts process for 2019/20 which would be undertaken at the end of the current financial year.

Members were advised that, to conclude the Statement of Accounts process for 2018/19, the Committee was required to consider the Audit Completion Report for the year ending 31 March 2019, approve the management representation letter and approve the final Statement of Accounts for 2018/19, which included the adjustment mentioned above. The final Statement of Accounts for 2018/19 could then be published by the end of July 2019 deadline.

The Committee was reminded that, as mentioned above, the work of the External Auditor remained in progress with a small number of actions outstanding. Further issues could therefore emerge and delegated authority was sought for the Head of Finance, Revenues and Benefits, in consultation with the Chairman (or in his absence the Vice Chairman) of the Committee to enable these to be reflected in the final management representation letter and / or the Statement of Accounts before publishing.

Aphrodite Lefevre (Director and Engagement Lead) and Nuwan Indika (Audit Manager) attended the meeting on behalf of the Council's External Auditor, BDO LLP, formally presented its Audit Completion Report to the Committee and, in addition, gave updates to Members where matters had moved on since the report had been submitted to the Council on 25 July 2019 and responded to the Committee's questions thereon.

Having considered and discussed all of the information submitted it was:-

RESOLVED that -

1. in respect of the External Auditor's Audit Completion Report for the year ended 31 March 2019, the Audit Committee:
 - (a) notes the contents of that report including the adjustments to the Statement of Accounts as set out on pages 19 to 20 of the report;
 - (b) approves the management representation letter, as set out as Appendix D (pages 37 to 39) to the External Auditor's Audit Completion Report;
 - (c) authorises the Head of Finance, Revenues and Benefits and the Chairman (or failing him the Vice-Chairman) of the Committee to sign the management representation letter for forwarding to the External Auditor;
 - (d) approves for publication the audited Statement of Accounts for 2018/19, amended for the adjusted items identified; and
 - (e) authorises the Head of Finance, Revenues and Benefits, in consultation with the Chairman (or failing him the Vice-Chairman) of the Committee to make amendments to the management representation letter for forwarding onto the External Auditor and / or Statement of Accounts 2018/19 before publication, if further changes are recommended by the External Auditor following the completion of the outstanding areas of their work.
2. in respect of the Council's Annual Governance Statement 2018/19, the Audit Committee:
 - (a) approves the revised Annual Governance Statement, as set out in Appendix A to item A.3 of the Report of the Deputy Chief Executive; and
 - (b) authorises the Chief Executive and the Leader of the Council to sign the approved Annual Governance Statement.

8. FUTURE MEETINGS OF THE COMMITTEE - VENUE AND START TIME

The Committee gave consideration whether to change the venue and/or the start time of its meetings.

Having had regard to the wishes of Members and the operational requirements of the Council's External Auditors:-

It was:-

RESOLVED that the usual venue for meetings of the Committee be changed from the Council Offices, Weeley to the Town Hall, Clacton-on-Sea and, additionally, that the usual start time for the meetings be moved from 7.30 p.m. to 10.30 a.m.

Members were aware that ROALCO, the Council's external contractor for repairs and refurbishment of the Council's housing stock, had recently gone into liquidation. At the request of the Chairman, the Head of Finance, Revenues and Benefits Services circulated to Members a briefing note on the Council's operational response to this event, which note had been prepared by the Council's Head of Building and Engineering Services.

The meeting was declared closed at 11.40 am

Chairman