

# Public Document Pack

Audit Committee

30 June 2022

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**MINUTES OF THE MEETING OF THE AUDIT COMMITTEE,  
HELD ON THURSDAY, 30TH JUNE, 2022 AT 2.30 PM  
IN THE COMMITTEE ROOM, TOWN HALL, STATION ROAD, CLACTON-ON-SEA,  
CO15 1SE**

|                       |  |
|-----------------------|--|
| <b>Present:</b>       | Councillors Coley (Chairman), Alexander (Vice-Chairman), Fairley, Miles and Steady   |
| <b>In Attendance:</b> | Richard Barrett (Assistant Director (Finance and IT) & Section 151 Officer), Andy White (Assistant Director (Building and Public Realm)) (except items 5 (part) & 6), Craig Clawson (Internal Audit Manager), Ian Ford (Committee Services Manager), Karen Townshend (Executive Projects Manager (Governance)) and Keith Durran (Committee Services Officer) |

**1. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

No apologies for absence were submitted on behalf of Councillors on this occasion.

**2. MINUTES OF THE LAST MEETING**

The Minutes of the last meeting of the Committee held on Monday 25 April 2022 were approved as a correct record and were 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**

No Questions on Notice pursuant to the provisions of Council Procedure Rule 38 had been submitted on this occasion.

**5. REPORT OF THE INTERNAL AUDIT MANAGER - A.1 - REPORT ON INTERNAL AUDIT: MARCH TO MAY 2022 AND THE ANNUAL REPORT OF THE INTERNAL AUDIT MANAGER**

The Committee had before it a report submitted by the Council's Internal Audit Manager (A.1) which provided a periodic update on the Internal Audit function for the period March 2022 to May 2022 together with the Internal Audit Manager's Annual Report for 2021/22 as required by the professional standards. That report was split into three sections as follows:-

**1) *Internal Audit Plan Progress 2021/22***

- a satisfactory level of work had been carried out on the 2021/22 Internal Audit Plan in order for the Internal Audit Manager to be able to provide an opinion in his Annual Audit Report.
- two audits from the Internal Audit Plan remained outstanding. All other audits within the plan had been completed with only two receiving an overall audit opinion of 'Improvement Required'. All other audits within the plan had received a satisfactory level of assurance.

## **2) Annual Report of Internal Audit Manager**

- the Annual Report of the Internal Audit Manager had concluded that an unqualified opinion of Adequate Assurance could be provided.
- the work carried out throughout the year by the Audit Committee, Senior Management and the Internal Audit Team had been in line with the Public Sector Internal Audit Standards and CIPFA Application Notes (Latest release November 2020).
- there were risks to being able to provide an unqualified opinion in 2022/23 given some identified wider governance issues and the difficulties reaching an overall opinion for 2021/22. This would form a key element of the Annual Governance Statement (AGS) that was currently being prepared along with a number of actions to ensure that adequate progress could be made to avoid a potentially unfavourable opinion in future.

## **3) Internal Audit Plan Progress 2022/23**

- Six audits within the 2022/23 Internal Audit Plan were currently in fieldwork.

### **INTERNAL AUDIT PLAN PROGRESS 2021/22**

The Committee heard how two audits within the 2021/22 Internal Audit Plan remained outstanding (Depot Operations and Strategic Housing). All other audits within the plan had been completed.

A total number of nine audits had been completed during the period April 2022 to June 2022. One report in this period had received an overall opinion of 'Improvement Required' (Housing Repairs and Maintenance) with the other eight receiving satisfactory assurance opinions with no significant issues being identified.

It was reported that Internal Audit had continued to provide advice on internal control, risk management and governance arrangements on a consultative basis. Further to completing audits within the agreed plan, the Team had attended meetings regarding Procurement, Career Track and Careline. The Team also allocated some time throughout the year liaising with departments and advising on an ad-hoc basis.

The Committee was reminded that the audit plan was fluid, which ensured that Audit worked with services to reaffirm audit priorities continuously throughout the year. Audit officers remained focussed on delivering the message that they were here to support services.

### **Quality Assurance**

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

### **Resourcing**

The Committee was informed that Internal Audit was currently working with an establishment of 3fte with access to a third party provider of internal audit services for specialist audit days as and when required. The Council had recently advertised

internally for the vacant Audit Technician post, unfortunately there had been no applicants. Officers were expected to advertise externally soon.

### Outcomes of Internal Audit Work

The Standards required the Internal Audit Manager to report to the Audit Committee on significant risk exposures and control issues. Since the last report nine audits had been completed and the final report issued. The Public Sector Internal Audit Standards required the reporting of significant risk exposures and control issues.

| Assurance                        | Colour | Number this Period | Total for 2020/21 Plan |   |
|----------------------------------|--------|--------------------|------------------------|---|
| Substantial                      |        | 0                  | 5                      |   |
| Adequate                         |        | 8                  | 15                     |   |
| Improvement Required             |        | 1                  | 2                      |   |
| Significant Improvement Required |        | 0                  | 0                      |   |
| No Opinion Required              |        | 0                  | 3                      | Three consultative engagements in 2021/22 |

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

Issues arising from audits completed in the period under review receiving an 'Improvement Required' opinion and which required reporting to Committee were:-

### Housing Repairs and Maintenance

#### 1. Lack of Variation Tracking

Issues identified:

"When a job was not as straight forward as expected a variation order was raised by the contractor which would then increase the expected cost of the job within the contract. The contractor had a contracted self-authorisation limit of £50 (but must send in photo beforehand) and anything above this must be authorised by the Council. This limit had recently been raised by the Council to £100. Whilst those variations were recorded under 'Job History', and looked at during invoice payment stage, there was no independent method of identifying the amount or total value of those works, or how many complied with contractual requirements."

Risk:

"Without an overview or method of identifying variations orders, there was a risk of paying for works or parts that were not required which had an adverse financial impact."

Agreed Action:

*“Explore options within Housing repairs software review to include a reportable process for separately adding, identifying and tracking order variations.*

*This additional step should be linked to authorisation levels for each user, to ensure the value is appropriate for their role and experience.”*

## 2. Tenancy Information

Issues identified:

“Every housing unit should have an identified tenant, or clearly marked as void if between tenants.

Updated records were necessary to ensure the customer service team knew they were dealing with the tenant at the address and to enable any security checks needed as well as complying with any data requirements.

There was currently no regular updating of tenant details within the maintenance system if they move in or out. Similarly, it was understood that initially tenant details needed to be completed manually during initial rollout of software. As a consequence, there was limited confidence that all addresses had a tenant listed and there might be a few rogue overlooked blank entries in the database, where no visits had been needed.”

Risk:

“Apart from reputational damage due to lack of data integrity and apparent professionalism, there was also the risk of allowing unauthorised access or works by a non-tenants.”

Agreed Action:

*“Liaise with IT to identify a data linkage method where existing records held on tenancy system can be exported to Housing Repairs software to ensure the records are current.”*

## 3. Lack of Clear Record Keeping

Issues identified:

“In a case brought to the Housing Ombudsman against the Council, one major criticism had been the absence of clear and comprehensive record keeping. This was also crucial in any legal defence against growing Housing Disrepair Claims.

Although some measures had been brought in, it was considered there was still room for some improvement. Further details and examples had been recorded within the operational audit report.”

Risk:

“If information was missing or dispersed, there was a risk of overlooking key facts which might impact works in place or potential ones, leading to adverse reputational damage or financial impact (especially if a repeat in nature of the case previously sent to the Ombudsman or subject to growing instances of costly Housing Disrepair Claims).”

Agreed Action:

*“New procedures and processes to be implemented so that information is captured centrally.*

*This will be examined as part of Housing Repairs software review to identify what options are available and any subsequent officer training carried out.”*

#### 4. Discrepancies Between Oneserve System and Invoices

Issues identified:

“Work is raised on OneServe with the job description and cost. Once the job is complete, an invoice is raised and submitted to the council for payment. This invoice is matched against work raised and paid accordingly.

In all cases, OneServe (council housing repair software) figures should match invoice to ensure only the work raised is paid for.

There are examples identified through testing which showed payment was apparently in excess of raised work.”

Risk:

“If the correct figures are not matched, this raises the risk that payments forecast may be different from invoice and overpay as a result. The variations are not kept with the main record, adding extra checking time to locate and cross reference any subsequent authorisations.”

Agreed Action:

*“Initially, a reminder will be issued to officers reminding them of the need to ensure the job value matches the received invoice.*

*There will also be investigation into software capability to see if a check function can be incorporated.”*

The Assistant Director (Building & Public Realm) (Andy White) attended the meeting and updated the Committee in respect of the department’s response to the outcomes of the Housing Repairs and Maintenance audit, especially in relation to the implementation of the OneServe software system; its links to the Northgate system and the automated exchange of information. He also indicated that Officers were investigating the department’s longer-term IT software requirements and its related information management protocols.

Mr White then responded to questions posed to him by the Chairman and members of the Committee.

#### Management Response to Internal Audit Findings

The Committee was reminded that there were processes in place to track the action taken regarding findings raised in Internal Audit reports and to seek assurance that

appropriate corrective action had been taken. Where appropriate, follow up audits had been arranged to revisit significant issues identified after an appropriate time.

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

| Status                     | Number | Comments |
|----------------------------|--------|----------|
| Overdue more than 3 months | 1      |          |
| Overdue less than 3 months | 1      |          |
| Not yet due                | 1      |          |

### **ANNUAL AUDIT REPORT OF INTERNAL AUDIT MANAGER**

Members were reminded that the Public Sector Internal Audit Standards (PSIAS) stated that a professional, independent and objective internal audit service was one of the key elements of good governance, as recognised throughout the UK public sector. The role of the Head of Internal Audit (Internal Audit Manager), in accordance with the PSIAS, was to provide an opinion based upon, and limited to, the work performed on the overall adequacy and effectiveness of the organisation's governance, risk management, and control processes.

As set out in the 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. 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.*

The Council was accountable collectively for maintaining a sound system of internal control and was responsible for putting in place arrangements for gaining assurance about the effectiveness of that overall system. The Council continued to adopt a 'Three Lines of Defence' assurance model, which was taken from the following sources:

#### 1. Senior Management and Departmental Leadership

Under the first line of defence, operational management had ownership, responsibility and accountability for directly assessing, controlling and mitigating risks.

#### 2. Internal Governance

The second line of defence consisted of activities covered by several components of internal governance (Statutory Officers, Corporate Oversight Functions, Quality Control, IT Security, Data Protection and other control departments). This line of defence monitored and facilitated the implementation of effective risk management practices by operational management and assisted the risk owners in reporting adequate risk related information up and down the organisation.

#### 3. Internal Audit

The requirement for an internal audit function in local government was detailed within the Accounts and Audit Regulations 2015, which stated that a relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

#### Internal Audit Approach

The Internal Audit function undertook a programme of audits each year to provide the Council and its Audit Committee with assurance on the adequacy of its system of internal control, governance and risk management arrangements. The audit programme was developed using a risk based approach that incorporated a number of independent reviews of the Council's activities to be able to give an overall opinion on the areas mentioned above.

CIPFA had released guidance on Head of Internal Audit Annual Opinions in November 2020 due to the impact of COVID-19. There had been no further guidance from CIPFA since then. The Internal Audit Manager continued to refer to this guidance while forming an opinion; however, there had been minimal impact on the delivery of the 2021/22 Internal Audit Plan due to COVID-19.

The impact of COVID-19 was now a section of every audit undertaken and would continue to be going forwards. The Internal Audit Team would record changes to procedures and effectiveness and efficiency issues due to COVID-19 and report any significant issues to the Council's Management Team and Audit Committee, as required.

Communication between Internal Audit, the Council's Leadership and the Audit Committee had been effective and remained consistent which provided reasonable assurance around the effectiveness and transparency of reporting arrangements.

Internal Audit had 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. This included advising service area transformation projects, procurement, ad-hoc investigations and any further advice on procedures due to the impact of COVID-19.

Independent investigatory work had also been undertaken throughout the year as and when required to support Senior Management when internal control issues had arisen within service areas.

In 2021/22, only two audits from a total of 27 reviews undertaken had received an overall audit opinion of "Improvement Required" whereby high severity issues had been identified. It had been difficult to reach an overall unqualified opinion this year as there had been other activity that had to be taken into account when forming an opinion. Examples included the fact that two statutory 'Section 5' reports had been issued in order to correct decisions that had contravened law / constitutional requirements, as well as there being early indications from the outturn process suggesting that there had been significant unauthorised overspends of the Council's budgets. With all of the above to be considered, the balancing factors were that all significant issues identified had been addressed instantly which had included setting up working groups when needed and that overall the Council's internal control environment was sound, but needed to be followed.

### Annual Opinion 2021/22

The Committee was made aware that the Head of Internal Audit's annual assurance opinion was based on the following:

- *Internal Audit work completed during the course of the year;*
- *observations from consultancy/ advisory support;*
- *results of any follow up exercises undertaken in respect of previous years' internal audit work;*
- *a review of assurance from other providers including those from first and second lines of defence, independent regulators and peer reviews;*
- *the extent of resources available to deliver the internal audit work; and*
- *the quality and performance of the Internal Audit service and the extent of compliance with the Public Sector Internal Audit Standards.*

### Limitations to the Annual Opinion

There had been no limitations to report on the ability to deliver the Internal Audit Plan and provide an annual opinion on the effectiveness of governance, risk management and internal control. There had been changes to the audit plan throughout the year due to emerging risks and changes to service provision, which had meant that some audits had been merged and some elements had been amended within individual audits. The changes to the audit plan had been made in consultation with the Audit Committee and Management Team, furthermore the amendments to the plan had only added to the overall assurance opinion provided by the Internal Audit Team.

### The Head of Internal Audit's Annual Opinion

It was reported that the overall direction of travel regarding the internal control environment since 2020/21 had remained the same. Officers were unable to state that the control environment had improved overall as the majority of audits had received an 'Adequate Assurance' opinion meaning that although there were no significant issues identified within those audits there was still some work to be done to develop the control environment at an operational level. A total of 39 moderate issues and 6 major issues had been identified with actions agreed with operational management throughout the year. All major actions had been reported to the Audit Committee and all moderate actions had been managed through the audit follow-up process with the service area.

Governance arrangements and internal controls had been evaluated in all audits within the plan, albeit with varying levels of scope. 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 consideration.

The opinion of the Internal Audit Manager had therefore been 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 had updated the annual Quality Assurance and Improvement Programme (QAIP), which was a self-assessment questionnaire against the Public



Sector Internal Audit Standards. The QAIP had been completed and agreed by the Audit Committee in April 2022.

The Internal Audit Manager was satisfied that sufficient work had been completed in 2021/22 to draw a reasonable conclusion on the adequacy and effectiveness of the Council's activities. The internal control environment continued to remain stable with some significant changes in specific service areas which had been reported to the Audit Committee throughout the year as part of the periodic reporting arrangements. 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.

The above report would be included within the Council's AGS as part of its statutory responsibilities.

The Committee was advised that there were risks to being able to provide an unqualified opinion in 2022/23 given the wider governance issues identified and the difficulties reaching an overall opinion for 2021/22. This would form a key element of the AGS that was currently being prepared to ensure that adequate progress could be made to resolve historical issues and avoid a potentially unfavourable opinion in future. As part of an immediate and direct response, the Chief Executive had established a regular cycle of Budget, Performance and Delivery Review meetings with Management Team and other Senior Officers across the Council. It had been recommended that those meetings cover the following key issues:

- *high level review of the in-year budget position for each Directorate / Department, which needs to aim to draw out any potential financial issues ahead of the associated impact on the budget e.g. potential overspends, underspends and / or other financial issues / pressures;*
- *following on from the point above, to promote and oversee any associated decision making / governance processes;*
- *to identify financial pressures that may impact on the Council's long term financial plan;*
- *to promote connections / linkages with the recently implemented Corporate Investment Plan;*
- *to review the in-year performance against the Council's key aims and objectives and other key delivery targets;*
- *to identify and oversee any other key governance issues; and*
- *set against all of the above, keep under on-going review the level of resources / capacity to meet the various demands on the Council's departments and services.*

After detailed discussion it was **RESOLVED** that –

- (a) the contents of the report be noted; and
- (b) the Housing Portfolio Holder and the Corporate Director (Operations & Delivery) be required to attend the next meeting of the Committee to give an update on the improvement actions being undertaken in relation to the Housing Repairs & Maintenance audit and to answer Members' questions thereon.

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6. **REPORT OF THE ASSISTANT DIRECTOR (FINANCE & IT) - A.2 - TABLE OF OUTSTANDING ISSUES**

The Committee had before it a report on the progress of outstanding actions identified by the Committee along with general updates on other issues that fell within the responsibilities of the Committee (report A.2).

Members were reminded that a Table of Outstanding Issues was maintained and reported to each meeting of the Committee. This approach enabled the Committee to effectively monitor progress on issues and items that formed part of its governance responsibilities.

Members also heard that updates were set out against general items and the Annual Governance statement within Appendices A and B respectively and that to date there were no significant issues arising from the above, with work remaining in progress or updates provided elsewhere on the agenda where appropriate.

**Other issues**

**Statement of Accounts 2020/21**

It was reported that the Statement of Accounts 2020/21 remained subject to the conclusion of the work of the External Auditor. At the time of this Committee meeting, the associated report of the External Auditor had yet to be received as they continued their necessary audit work.

At the last meeting of the Committee, the External Auditor had provided a report which had detailed reasons for the aforementioned awaiting conclusion and had stated that the audit was not sufficiently progressed to enable the Audit Completion Report to be submitted, citing increasing pressures on the sector and unrealistic target dates. At the present time, it was hoped to bring this item to the September meeting of the Committee.

**RIPA**

The Committee was informed that this Authority had not conducted any RIPA activity in the last quarter and that it was rare that it would be required to do so.

The Covert Surveillance Policy and Procedure Manual pursuant to the Regulation of Investigatory Powers Act 2000 and Use of Social Media in Investigations Policy and Procedure had been finalised and had been published in May and June 2022 respectively.

**Housing Void Rate**

Members recalled that the housing void rate issue would now be managed through the Financial Performance Reports and it had consequently been removed from the Table of Outstanding Issues. However, if issues arose in the future they would be brought to this Committee as necessary.

**Redmond Review**

The Committee was informed that the Government had provided a further response to Local Audit Framework: technical consultation, as detailed in the Redmond Review on 31 May 22. This was a culmination of the Government's response into the effectiveness of external audit and transparency of financial reporting in local authorities and detailed the first steps taken towards a more co-ordinated local audit system, in which key players worked together to address challenges as they arose.

The response had confirmed that the new regulator, the Audit Reporting and Governance Authority (ARGA) would act as system leader for local audit. Ahead of ARGA's establishment, shadow arrangements would start at the Financial Reporting Council. Additionally, measures had been announced to ease immediate timeliness issues and to reduce the financial burden which increased audit requirements had placed on councils. Collaboration had accelerated across the current system as key stakeholders had worked closely through the Liaison Committee to deliver a package of measures to improve timeliness. Furthermore, the response had confirmed that once Parliamentary time allowed, it was planned that audit committees would become mandatory for all councils, with at least one independent member nominated to each Authority's audit committee.

It was further reported that the Local Audit Framework technical consultation had set out the Government's intention to act as interim system leader for local audit before new system leader arrangements were established. This had included the establishment of the new Liaison Committee, which had met 4 times. This forum had enabled strong and positive engagement from across the local audit system on how to balance different priorities and objectives. A primary focus for the Liaison Committee across this period had been the development of measures to address ongoing audit delays and to support the fragile audit market.

The Public Sector Audit Appointments Ltd (PSAA) had continued to progress its procurement strategy for the next round of local audit contracts. In March 2022, PSAA had confirmed that 470 out of 475 eligible local bodies had opted-in to its scheme for the procurement of the 2022/23-2027/28 audit contract, including this authority.

#### Planning Enforcement Policy

Members were advised that the draft Planning Enforcement Policy had been presented to the Corporate Enforcement Group where feedback and comments had been invited. The draft policy would now be presented to the Planning Committee in order for it to be formally adopted and it was anticipated that this would be at its August 2022 meeting.

#### Careline update

Following the Audit Committee's consideration of the Careline service at its March 2022 meeting, a report had been presented to Cabinet on 17 June 2022 which had set out options for the future of the Careline service, along with the most up to date position with regard to the improvement actions identified. Those actions had included the creation of a Careline Board which was attended by senior managers and the Portfolio Holder for Housing. This Board continued to oversee the improvement plan which included such elements as the monitoring of performance against the TSA KPI's, incoming call volumes, staffing levels and debt management. Therefore the above had established an assurance framework to respond to the issues previously reported to the

Committee. However, further timely updates would be provided to future meetings of the Committee.

After discussion the Committee **RESOLVED** that –

- (a) it notes the progress made against the actions set out in Appendices A and B of item A.2 of the Report of the Assistant Director (Finance & IT);
- (b) in relation to the Careline update, the Assistant Director (Finance & IT) be requested to submit, on behalf of the Audit Committee, the following questions and comments to the Careline Board:-
  - (1) *are the approved new plans for Careline realistic ambitions for the structure and staffing levels in Careline?;*
  - (2) *the Audit Committee want a reassurance that the agreed new plans for Careline do not compromise the recovery of the service and its delivery to customers;*
  - (3) *will the ability to deliver a sustained and deliverable service match the potential interest resulting from the marketing campaign?;*
  - (4) *will Careline provide a sustainable and cost effective service, which mitigates the financial and reputational risk to the Council?;*
  - (5) *what is the current and proposed staffing levels and does the business case support the employment and training of additional new staff?;*
  - (6) *has the Business Continuity Plan for Careline been updated, to mitigate the previous risks and failings?; and*
  - (7) *is there still outstanding unrecovered debt?.*
- (c) in relation to the response to the Ofsted report following its inspection of Career Track, the Assistant Director (Partnerships) be required to attend the September 2022 meeting of the Committee and give a presentation to Members on the completed Career Track development plan;
- (d) in view of the Council's on-going response to Covid-19 the Committee authorises an indefinite delay in carrying out an audit review in relation to the effectiveness of the Council's response to the COVID-19 including a review of the lessons learnt from the Council's response and longer term consequences; and
- (e) in relation to the Council's declared intention to be 'carbon neutral' by 2030 and the reputational risk inherent, the relevant Corporate Director be required to attend a meeting of the Committee in early 2023 to present to Members a two year progress report on the Council's Climate Change Action Plan.

The meeting was declared closed at 3.39 pm

**Chairman**