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Audit Committee

22 March 2018

**MINUTES OF THE MEETING OF THE AUDIT COMMITTEE,
HELD ON THURSDAY, 22ND MARCH, 2018 AT 7.32 PM
IN THE COUNCIL CHAMBER, COUNCIL OFFICES, THORPE ROAD, WEELEY,
CO16 9AJ**

Present:	Councillors Poonian (Vice-Chair, in the Chair), Alexander and Hones
In Attendance:	Richard Barrett (Head of Finance, Revenues and Benefits Services & Section 151 Officer), Craig Clawson (Acting Audit & Governance Manager), Ian Ford (Committee Services Manager) and Clare Lewis (Fraud and Risk Manager)
Also in Attendance	Kevin Suter (Associate Partner – Ernst & Young LLP) (except items 30 – 35)

24. CHAIR

In the absence of the Chairman of the Committee (Councillor Coley), the Chair was occupied by the Vice-Chairman (Councillor Poonian).

25. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies for absence were submitted on behalf of Councillor Coley. There was no substitute.

26. MINUTES OF THE LAST MEETING

The minutes of the meeting of the Committee held on 25 January 2018 were approved as a correct record and signed by the Chairman.

27. DECLARATIONS OF INTEREST

There were none.

**28. REPORT OF CORPORATE DIRECTOR (CORPORATE SERVICES) - A.3 -
EXTERNAL AUDIT'S AUDIT PLANNING REPORT FOR THE YEAR ENDED 31
MARCH 2018**

There was submitted a report by the Council's Corporate Director (Corporate Services) (A.3) which presented for the Committee's consideration and agreement the External Auditor's Audit Planning Report for the year ended 31 March 2018.

Members were informed that the External Auditor's Audit Plan for the year ending 31 March 2018 set out their planned audit work in respect of forming their opinion on the 2017/18 Financial Statements and the Council's arrangements to secure value for money. The Plan had been developed taking into account a number of factors such as strategic, operational and financial risk which provided a reporting focus on the areas that mattered and would more likely be relevant to the Council.

Kevin Suter from the Council's external auditor, Ernst & Young, highlighted the salient points of their audit plan for 2016/17 and, in particular, focused on –

- Audit Risks
 - a) Risk of fraud in revenue and expenditure recognition;
 - b) Risk of Management Override;
 - c) Property, Plant and Equipment Valuations; and
 - d) Pension Valuations and Disclosure.
- Value for Money Risks – Achievement of Savings Needed over the Medium Term
- Impact of the Accounts and Audit Regulations 2015 which have changed the latest date for publication of draft accounts to 31 May and the latest date for publication of the final accounts to 31 July

Having considered the proposed External Auditor's Audit Plan it was:

RESOLVED that the External Auditor's Audit Planning Report for the year ended 31 March 2018 be approved.

29. REPORT OF CORPORATE DIRECTOR (CORPORATE SERVICES) - A.4 - EXTERNAL AUDIT - CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT 2016/17

There was submitted a report by the Council's Corporate Director (Corporate Services) (A.4) which presented the External Auditor's certification of claims and returns annual report for 2016/17.

In summary, the key outcomes from the annual report were as set out below:

- only the Housing Benefit Subsidy claim had been subject to audit certification by the Council's External Auditor in 2016/17.
- a qualification letter had been issued in respect of the housing benefit subsidy claim, although there had been only a marginal effect on the subsidy due.
- to date no response had been received from the Department for Works and Pensions in response to the External Auditor's qualification letter which they would have received late last year.
- one recommendation had been made by the External Auditor which had been agreed by Officers.
- The breakdown of the External Auditor's 2016-17 Certification Fees (subject to Public Sector Auditor Appointments Ltd. approval)

Kevin Suter from the Council's external auditor, Ernst & Young, highlighted the salient points of their audit report including its recommendation in respect of the Housing Benefit Subsidy Claim (which related to the Council performing early and extended testing in those areas where errors had been identified in 2016/17 to ascertain the extent of similar errors on 2017/18) and the 2016-17 Certification Fees.

Having considered the External Auditor's report it was:

RESOLVED that

- a) the contents of the External Auditor's certification of claims and returns annual report 2016/17 be noted; and
- b) the recommended action in response to the External Auditor's findings be approved.

30. REPORT OF THE ACTING AUDIT AND GOVERNANCE MANAGER - A.1 - REPORT ON INTERNAL AUDIT

The Committee had before it a periodic report (A.1) on the Internal Audit function for the period of December 2017 to February 2018. The report also set out the key findings and appropriate actions required going forward from the External Quality Assessment (EQA) of the Council's Internal Audit function.

The Council's Acting Audit and Governance Manager (Craig Clawson) informed the Committee that the Internal Audit function had been assessed in three areas by the EQA namely -

Resource - Business Vision and Mission, Governance arrangements, Recognition of standards, Guidance, Procedures and Supervision, Terms of Engagement, Ethics and business conduct

Competency - Charter, Internal Audit Manual, Planning and Allocation of staffing, Recruitment (Numbers and skills), Training (Professional and Technical), Appraisal and Development

Delivery - Client engagement and relationship, Directed led service, Terms of Engagement (Audit/Assignment Brief), Discussion of assurance and advisory opinions, Reporting at assignment and strategic levels

The categorisation of recommendations used by the EQWA to understand the level of priority needed for each action were as set out below -

Recommendation grading	Explanation
Enhance	The internal audit service must enhance its practice in order to demonstrate transparent alignment with the relevant PSIAS in order to demonstrate a contribution to the achievement of the organisations objectives in relation to risk management, governance and control.
Review	The Internal audit division should review its approach in this area to better reflect the application of the PSIAS.
Consider	The internal audit division should consider whether revision of its approach merits attention in order to improve the efficiency and effectiveness of the delivery of services

The Committee was informed that the majority of the EQA's recommendations had been graded as "Consider" and only one recommendation had been graded as "Enhance".

Appendix A to the report provided an action plan which included all the EQA's recommendations that had been categorised as "Review" and "Enhance" for review by the Committee. The action plan detailed how the Internal Audit Team would incorporate each recommendation into working practice together with an estimated implementation date.

Members were informed that the EQA reported that the Internal Audit Team were excelling in the area of 'Resource' and were established in the areas of 'Competency' and 'Delivery'. The report also stated that: "*The internal audit service has responded to the new standards in recent years and has moved towards a common approach that is consistent with the PSIAS [Public Sector Internal Audit Standards].*"

The Committee was made aware that the common theme within the report was one of alignment between Internal Audit processes and Risk Management processes in order to provide consistency across the Council in its approach to, and tolerance of, risk.

The Council's Acting Audit and Governance Manager (Craig Clawson) also informed the Committee that six audits had been completed in the report period of which five had achieved a satisfactory level of assurance and one had received an 'Improvement Required' opinion.

Mr Clawson also informed the Committee of the current position in relation to:

- (i) Internal Audit Plan Progress;
- (ii) Quality Assurance;
- (iii) Outcomes of Internal Audit Work;
- (iv) Walton-on-the-Naze Lifestyles; and
- (v) Management response to Internal Audit Findings.

RESOLVED that –

- (a) the actions to be taken by the Internal Audit Team to incorporate recommendations made by the External Quality Assessor be noted; and
- (b) the Internal Audit Plan progress to date be noted.

31. REPORT OF ACTING AUDIT AND GOVERNANCE MANAGER - A.2 - INTERNAL AUDIT CHARTER AND INTERNAL AUDIT PLAN 2018/19

There was submitted a report by the Council's Acting Audit and Governance Manager (A.2) which sought the Committee's approval for the Internal Audit Plan for 2018/19. The Plan was before the Committee as Appendix A to that report and had been developed using a risk based approach, taking into account the Council's Corporate Objectives, Corporate Risks, Departmental Risks and Emerging Risks.

Members were informed that it was proposed to deliver the Annual Audit Plan using the current resource establishment with the introduction of new audit techniques such as *Continuous Auditing, Assurance Mapping, Root Cause Analysis / Data Analytics, Lean*

Auditing, Self-Assessments and Consultancy / Advisory Services as well as the introduction of a new apprentice within the Team.

The Committee was advised that the Plan would be kept under review during the year, in consultation with the Council's Management Team, and taking account of changes to the Council's priorities, operations and risk. Changes to the Plan would be brought to the attention of the Committee for its approval.

The Committee was also reminded that Public Sector Internal Audit Standards required that the Chief Audit Executive (or equivalent officer): -

1. Periodically reviewed the Internal Audit Charter and presented it for approval.
2. Provided a high level statement of how the Internal Audit Service would be delivered and developed in accordance with the Internal Audit Charter and how it linked to the organisational objectives and priorities.
3. Established a risk based Internal Audit Plan, at least annually, to determine the priorities of the Internal Audit function, consistent with the Council's goals.
4. Had in place a mechanism to review and adjust the plan, as necessary, in response to changes to the Council's business, risks, operations, programmes, systems and controls.
5. Produced a plan that took into account the need to produce an annual Internal Audit opinion.
6. Considered the input of senior management and the Audit Committee in producing the plan.
7. Assessed the Internal Audit resource requirements.

The Acting Audit and Governance Manager (Craig Clawson) made the Committee aware of the background matters in relation to –

- (i) the development of the Audit Plan;
- (ii) the Internal Audit resource requirements; and
- (iii) the Internal Audit Plan detail.

In relation to the Internal Audit Charter, the Committee was aware that in previous years an updated Audit Charter had been presented to its March meeting for Members' approval. The Audit Charter included legislative and regulatory requirements; governance arrangements between the Audit Committee, Management and Internal Audit; and roles and responsibilities and processes and procedures undertaken by Internal Audit and the Audit Committee. However, as the Internal Audit Team developed the new approach in delivering the internal audit plan, many of those processes and procedures would be subject to change. It was therefore proposed by Officers to present an updated Internal Audit Charter to the Committee later in the year. In the meantime, the existing Charter would remain in place and continue to set out the core principles defining the purpose, authority and responsibility of the Internal Audit Function which therefore would remain relevant until such time as a revised charter was agreed.

Following discussion, it was **RESOLVED** that -

- (a) the Internal Audit Plan for 2018/19 be approved; and
- (b) that the existing arrangements for updating the Plan during the year, where necessary to reflect changing Authority activity and operational needs and to provide flexibility of service delivery, be continued, with significant amendments reported to the Committee as part of the periodic Internal Audit reporting arrangements.

32. REPORT OF CORPORATE DIRECTOR (CORPORATE SERVICES) - A.5 - AUDIT COMMITTEE WORK PROGRAMME 2018/19

There was submitted a report by the Council's Corporate Director (Corporate Services) (A.5) which presented for approval the Committee's proposed work programme for the period April 2018 to March 2019. The work programme was before the Committee as an Appendix to the report.

Members were aware that, in addition to the regulatory and statutory activities undertaken by the Committee such as the Statement of Accounts, Corporate Governance and Risk Management, the Committee were also required to review and scrutinise:

- The work and performance of the Internal Audit function;
- The outcomes from the work of the Council's External Auditor; and
- Progress against audit recommendations and other items identified by the Committee.

Members were made further aware that during the year other matters apart from those set out above might be presented to the Committee for consideration. Given the on-going regulatory and statutory workload and the various additional activities undertaken by the Committee, any additional items that might arise would need to be considered against the proposed work programme and included for reporting at the appropriate meeting, or considered for inclusion in subsequent work programmes. Although not included in the formal work programme, it was recognised that the Committee might wish to develop training opportunities, which could be considered during the year. Such opportunities would either form part of future meetings or, where necessary, separate arrangements would be made.

The Committee was informed that the work programme included a counter-fraud update scheduled for the September meeting of the Committee. This was subject to the implementation of a restructuring process currently underway across the Finance, Revenues and Benefits service. This also provided a direct response to a question previously raised by the Committee in respect of non-housing anti-fraud work that was currently included in the Table of Outstanding Issues Report elsewhere on the agenda.

It was also reported that as the year progressed, it might be necessary to review items on the work programme as some reports / activities and associated timescales could be subject to change. As appropriate, the Chairman of the Committee would be consulted on any significant changes to the work programme.

Having considered the proposed Work Programme it was:

RESOLVED that the Audit Committee's Work Programme for 2018/19 be approved.

33. REPORT OF THE CORPORATE DIRECTOR (CORPORATE SERVICES) - A.6 - TABLE OF OUTSTANDING ISSUES

There was submitted a report by the Council's Corporate Director (Corporate Services) (A.6) 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 25 January 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.6 of the Report of the Corporate Director (Corporate Services), or elsewhere on the agenda where appropriate.

Updates against actions identified within the latest Annual Governance Statement were set out in Appendix B with no significant issues to highlight at the present time.

Members were informed that in developing a Counter Fraud and Corruption Strategy, a voluntary code of practise that had been published by CIPFA had been identified which was presented to the Committee to consider for adoption by the Council. That code of practice identified five key principles for an organisation to consider, namely –

Principle 1 – Acknowledge Responsibility

The organisation should acknowledge its responsibility for ensuring that the risks associated with fraud and corruption are managed effectively across all parts of the organisation.

Specific steps should include:

- *The organisation's leadership team acknowledge the threats of fraud and corruption and the harm they can cause to the organisation, its aims and objectives and to its service users.*
- *The organisation's leadership team acknowledge the importance of a culture that is resilient to the threats of fraud and corruption and aligns to the principles of good governance.*
- *The governing body acknowledges its responsibility for ensuring the management of its fraud and corruption risks and will be accountable for the actions it takes through its governance reports.*
- *The governing body sets a specific goal of ensuring and maintaining its resilience to fraud and corruption and explores opportunities for financial savings from enhanced fraud detection and prevention.*

Principle 2 – Identify Risks

Fraud risk identification is essential to understand specific exposures to risk, changing patterns in fraud and corruption threats and the potential consequences to the organisation and its service users.

Specific steps should include:

- *Fraud risks are routinely considered as part of the organisation's risk management arrangements.*
- *The organisation identifies the risks of corruption and the importance of behaving with integrity in its governance framework.*
- *The organisation uses published estimates of fraud loss, and where appropriate its own measurement exercises, to aid its evaluation of fraud risk exposures.*
- *The organisation evaluates the harm to its aims and objectives and service users that different fraud risks can cause.*

Principle 3 – Develop a Strategy

An organisation needs a counter fraud strategy setting out its approach to managing its risks and defining responsibilities for action.

Specific steps should include:

- *The governing body formally adopts a counter fraud and corruption strategy to address the identified risks and align with the organisation's acknowledged responsibilities and goals.*
- *The strategy includes the organisation's use of joint working or partnership approaches to managing its risks, where appropriate.*
- *The strategy includes both proactive and responsive approaches that are best suited to the organisation's fraud and corruption risks.*
- *The strategy includes clear identification of responsibility and accountability for delivery of the strategy and for providing oversight.*

Principle 4 – Provide Resources

The organisation should make arrangements for appropriate resources to support the counter fraud strategy.

Specific steps should include:

- *An annual assessment of whether the level of resource invested to counter fraud and corruption is proportionate for the level of risk.*
- *The organisation utilises an appropriate mix of experienced and skilled staff, including access to counter fraud staff with professional accreditation.*
- *The organisation grants counter fraud staff unhindered access to its employees, information and other resources as required for investigation purposes.*
- *The organisation has protocols in place to facilitate joint working and data and intelligence sharing to support counter fraud activity.*

Principle 5 – Take Action

The organisation should put in place the policies and procedures to support the counter fraud and corruption strategy and take action to prevent, detect and investigate fraud.

Specific steps should include:

- *The organisation has put in place a policy framework which supports the implementation of the counter fraud strategy.*
- *Plans and operations are aligned to the strategy and contribute to the achievement of the organisation's overall goal of maintaining resilience to fraud and corruption.*
- *Making effective use of national or sectoral initiatives to detect fraud or prevent fraud, such as data matching or intelligence sharing.*
- *Providing for independent assurance over fraud risk management, strategy and activities.*
- *There is a report to the governing body at least annually on performance against the counter fraud strategy and the effectiveness of the strategy from the lead person(s) designated in the strategy. Conclusions are featured in the annual governance report.*

It was **RESOLVED** that the Committee -

- a) notes the progress on the outstanding issues; and
- b) adopts CIPFA's code of practice on managing the risk of fraud and corruption.

34. EXCLUSION OF PRESS AND PUBLIC

RESOLVED that, under Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting during consideration of Agenda Item 11 on the grounds that they involve the likely disclosure of exempt information as defined in the relevant paragraph(s) of Part 1 of Schedule 12A, as amended, of the Act.

35. EXEMPT MINUTE OF THE LAST MEETING HELD ON THURSDAY 25 JANUARY 2018

The Exempt Minutes of the last meeting of the Committee, held on 25 January 2018, were approved as a correct record and signed by the Chairman.

The meeting was declared closed at 8.42 pm

Chairman

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