

Audit Committee – 28 July 2020

Minutes of the meeting of the **Audit Committee** held on **28 July 2020** when there were present:-

Chairman: Cllr Mrs L A Butcher
Vice-Chairman: Cllr D Merrick

Cllr Mrs T L Carter	
Cllr M Hoy	Cllr Mrs L Shaw
Cllr G J Ioannou	Cllr P J Shaw
Cllr M J Lucas-Gill	Cllr D J Sperring
Cllr R Milne	

VISITING MEMBER

Cllr S P Smith
Cllr Mrs C M Mason

APOLOGIES FOR ABSENCE

Apologies for absence were received from Cllr J E Newport and Cllr P J Shaw

SUBSTITUTES

Cllr Mrs J R Gooding - for Cllr P J Shaw

OFFICERS PRESENT

N Lucas	- Assistant Director, Resources
M Porter	- Chief Audit Executive
J Kevany	- Principal Auditor
S Worthington	- Principal Democratic and Corporate Services Officer
L Morris	- Civic Officer

110 MINUTES

The Minutes of the meeting held on 10 March 2020 were approved as a correct record and would be signed in due course by the Chairman

111 EXTERNAL AUDITOR REPORT

The Committee considered the report of the Assistant Director, Resources drawing Members' attention to the Certification of Claims and Returns Annual Report 2018/2019

It was noted that in accordance with DWP requirements, the Council must appoint an external auditor to perform checks on the accuracy of the Housing and Benefit Subsidiary Claims. The external auditor appointed for 2018/19 was BDO. BDO found that the Housing and Benefit Subsidiary Claim had a total value of £15.6m and identified small errors totalling £235. The DWP

extrapolated these findings across the whole claim and this resulted in a further adjustment of £5,588 being clawed back from the Council.

The Assistant Director, Resources drew Members' attention to BDO placing a scale fee variation increase of £10,700 in addition to the original fee that was proposed as a result of the additional testing work carried out for 2018/19.

In response to a Member concern raised about the quality of reports provided by Capita in respect of the housing benefits subsidy, as detailed on page 6.19 of the report, Assistant Director, Resources explained that this was not a weakness that was previously identified and had been picked up throughout the course of the audit, and remedial action was being taken to ensure this did not happen again.

In response to a Member question in regard to the nature of the cost increase from BDO, officers advised that the original cost was based on errors found in the 2015/16 audit, where the number of errors had been low; an additional charge had been made for additional testing that needed to be performed due to a higher error level.

Responding to a Member question regarding problems that may occur in future audits, the Assistant Director, Resources advised that due to a high number of claims being processed, it was impossible to eliminate human error, but in cases where particular system errors were identified, this was addressed each year.

In response to a Member question raised about the previously mentioned amount of £5,588 being considered immaterial and at what level would this value be considered material, officers advised that a level of materiality was not set prior to the audit being commenced but rather assessed in comparison to the overall claim value.

Responding to a question in respect of the error rate and the system used, the Assistant Director, Resources, advised that a number of other authorities use the Capita Academy System and would also be affected by any issues with the system, which should be rectified by Capita.

Resolved

That the Certification and Returns Annual Report 2018/19 to be noted. (ADR)

112 2019/20 EXTERNAL AUDIT

The Committee considered the report of the Assistant Director, Resources presenting the Council's external auditor's (EY) Annual Audit Plan (AAP) and Addendum covering the audit of the 2019/20 Financial Statements and providing an update on the status of the 2019/20 audit.

It was noted that timescales had been deferred in light of COVID-19, and while

ordinarily draft accounts would have been published by 31 May 2020 with an aim to be audited by end of July 2020, legislation had been passed to allow publication of the accounts by 31 August 2020 and audit of accounts by 30 November. Draft accounts were published by Rochford District Council on 25 June 2020, with audit work ongoing.

Officers drew attention to paragraph 4 of the report and the proposed fee level for the 2019/20 audit where EY proposed a variation of £23,181 to the original proposed fee level in light of the additional work.

The external auditor drew Members' attention to elements of work that were unable to be concluded currently: Pensions Assurance on the work completed by Essex Pensions Fund, who were still completing their audit; one investment confirmation from Lloyds Bank was being awaited; and progressing work on Going Concern, which was highlighted as an additional area of focus in light of COVID-19.

Only one audit adjustment totalling £130,000 has been identified so far, due to a reclassification between income and expenditure as a result of a Housing and Benefit recharge but that there would be no impact on the net expenditure within the CIES as result of this. Some minor disclosure adjustments were noted, but none were significant. The final audit report was planned to be presented at the next Audit Committee following conclusion of work.

In response to Member concern surrounding asset values and value for money following COVID-19, the external auditor explained that the audit covered value for money (VFM) up to the close of the financial year, and as COVID-19 hit late in the financial year, the impact was minimal. The external auditor also explained that from the financial statement accounts audit, the asset values were subject to some uncertainty from COVID-19, and some additional work was carried out to ensure that the values were correct.

Resolved

That the Annual Audit Plan and Addendum for 2019/20 be noted. (ADR)

113 INTERNAL AUDIT ANNUAL REPORT 2019/20

The Committee considered the report of the Assistant Director, Resources providing the Chief Audit Executive's annual opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and internal control during 2019/20.

The Chief Audit Executive drew Members' attention to the fact that the annual audit plan was approved by the Audit Committee in May 2019, and that the Committee had received a number of updates throughout the course of the year. 20 audit reviews were achieved throughout the course of the year, with only one resulting in a limited assurance opinion with the other 19 receiving an adequate or good rating.

The Chief Audit Executive advised that he was providing an adequate assurance opinion on the Council's arrangements for risk management, internal control and governance in operation and was of the opinion that all were sound, although some improvements could be made. The Chief External Auditor drew Members' attention to 8.3 and the Counter Fraud Activity and identified that significant cashable savings had been made throughout the year.

The Chief Audit Executive also emphasised that annual self-assessment had been carried out over the course of the year and no concerns had been raised.

In response to a Member concern surrounding outstanding audit work, officers explained that the work in question was a complex piece of work which was progressing and should be in place by the end of the year.

Responding to a further Member concern regarding the standard of emergency planning, officers advised that prior planning had been theoretical and was evolving based on practical lessons learned during the pandemic.

Responding to a Member question regarding ICT security and Members using their own devices, and the timeliness of users being deleted from Council systems, officers advised that Members were permitted to use their own devices, but all operating systems could only be accessed by officers through the portal. Officers also confirmed that all relevant users that needed to be deleted had been removed from the systems.

Resolved

That the Chief Audit Executive's opinion on the overall adequacy and effectiveness of the Council systems of governance, risk management and internal control be noted. (ADR)

114 INTERNAL AUDIT PLAN AND CHARTER 2020/21

The Committee considered the report of the Assistant Director, Resources setting out the Internal Audit plan for 2020/21 and the Internal Audit Charter.

The Chief Audit Executive advised Members' that in addition to looking at major risk in the Council, audits had been undertaken of Key Financial Systems. The Chief Audit Executive also advised that it was likely that the plan would need revising over the course of the year as the risk environment evolves; any changes would, however, be reported to the Committee. It was advised that the audit plan for 2020/21 would potentially be changed during the course of the year, as COVID-19 risks evolved.

The Chief Audit Executive drew Members' attention to Appendix A and advised that this work was used to formulate the annual audit opinion.

In response to a Member query regarding resources, officers advised that the additional auditor was currently on maternity leave, but that if there was a need for additional resource, this was available from Basildon Council.

Responding to a Member concern regarding confidence in the process, the Chief Audit Executive emphasised that COVID-19 had provided a unique opportunity to test the arrangements, to explore what might be improved and what had worked well; this could be incorporated into any further arrangements.

In response to a Member question relating to cyber security insurance, the External Audit Executive advised that the audit could look at how to mitigate the risks in terms of cyber security.

Resolved

That the proposed Audit Plan and Charter for 2020/21 be approved. (ADR)

(10 Members voted for, 0 against and 0 abstained)

115 ANNUAL GOVERNANCE STATEMENT 2019/20

The Committee considered the report of the Assistant Director, Resources setting out details of the Annual Governance Statement for 2019/20 for Members' endorsement.

In response to a Member concern relating to the Peer Review and social media outreach, officers confirmed that this would be taken into account next year; the Peer Review was carried out towards the end of the last financial year and COVID-19 resulted in an essential focus on core priorities which had resulted in manpower being drawn away new areas of work.

In response to a Member observation that a commitment had been made to work continuing as normal during the pandemic, officers advised that the Peer Review recommendations would be addressed; however, priority had to be given to the continuation of core operations.

Resolved

- (1) That the Annual Governance Statement for 2019/20 be endorsed and referred to the Managing Director and Leader of the Council for signature.

(8 Members voted for the motion, 0 against and 2 abstained)

- (2) That authority is delegated to the Chairman of the Audit Committee to endorse changes to the AGS following review by the Council's external auditors. (ADR)

(10 Members voted for the motion, 0 against and 0 abstained)

116 AUDIT PROGRESS REPORT 2020/21

The Committee considered the report of the Assistant Director, Resources updating Members on the work of the Internal Audit team in terms of progress made against the annual audit plan and action taken by service departments in implementing audit recommendations.

The Chief Audit Executive drew Members' attention to page 11.5 setting out details of audit reviews that had already been conducted this year: Parameter Input; Safeguarding; User Permissions for Dimensions; and Procurement. In regards to Procurement, the previous year's audit had identified control issues, so a light touch review was carried out to look at low-level expenditure which identified that where quotes are required, quotes were not always being obtained.

It was also identified that testing had been carried out in relation to Housing & Benefit Subsidiary, which supports the work of external audit.

Resolved

- (1) That the update on delivering the 2020/21 Audit Plan be noted.
- (2) That the conclusions and results from completed audit engagements in Appendices 2 and 3 be noted.
- (3) That the updated status of audit recommendations in Appendix 4 be noted. (ADR)

117 REVIEW OF THE COUNCIL'S RISK MANAGEMENT FRAMEWORK AND CORPORATE RISK REGISTER

The Committee considered the report of the Assistant Director, Resources providing details of the Council's proposed corporate risk register for 2020/21 for approval.

In response to a Member question regarding when the corporate risk framework had last been reviewed and concerns about the level of the financial parameters, the Assistant Director, Resources advised that there had been a complete review of the risk framework a year previously which had been reported to the Audit Committee and approved; this was regularly reviewed.

Responding to a Member question around measures for mitigating risks that were classified as high, the Assistant Director, Resources advised that there were ongoing discussions around staffing; as a small Council the risk was likely to remain high due to a tight staffing structure; however, all possible measures were taken to successfully recruit and retain officers. The Assistant Director, Resources also advised that in terms of the MTFs risk, this had been reclassified in light of the financial risks currently facing the Council; this was common to all Local Government and outside of the control of the Council. This

could be revisited in the event of further guidance being issued from central government on any further funding measures in respect of COVID-19.

In response to a Member question relating to responsibility for setting risk levels, officers advised that this was the responsibility of the Leadership Team and each risk was assigned an individual owner who was responsible for updating the risk register.

Resolved

That the content of the corporate risk register for 2020/21 be approved. (ADR)

(10 Members voted for the motion, 0 against and 0 abstained)

The meeting closed at 9.09pm.

Chairman

Date

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