

Audit Committee – 21 May 2019

Minutes of the meeting of the **Audit Committee** held on **21 May 2019** when there were present:-

Cllr T G Cutmore	Cllr J E Newport
Cllr A H Eves	Cllr Mrs L Shaw
Cllr M Hoy	Cllr P J Shaw
Cllr M J Lucas-Gill (in the chair)	Cllr D J Sperring (Vice-Chairman)
Cllr R Milne	

APOLOGIES FOR ABSENCE

Apologies for absence were received from Cllrs Mrs L A Butcher and D Merrick.

SUBSTITUTES

Cllr D S Efde	- for Cllr D Merrick
Cllr I H Ward	- for Cllr Mrs L A Butcher.

OFFICERS PRESENT

N Lucas	- Section 151 Officer
M Porter	- Chief Audit Executive
J Kevany	- Principal Auditor
S Worthington	- Democratic Services Officer

96 ELECTION OF CHAIRMAN

Cllr Mrs L Shaw moved a Motion, seconded by Cllr P J Shaw, that Cllr M J Lucas-Gill be appointed to act as Chairman for this meeting.

Resolved

That Cllr M J Lucas-Gill act as Chairman for the meeting.

Cllr Mrs L Shaw moved a further Motion, seconded by Cllr P J Shaw, that Cllr D J Sperring be appointed to act as Vice-Chairman for this meeting.

Resolved

That Cllr D J Sperring act as Vice-Chairman for the meeting.

97 MINUTES

The Minutes of the meeting held on 26 February 2019 were approved as a correct record and signed by the Chairman.

98 ANNUAL GOVERNANCE STATEMENT FOR 2018/19

The Committee considered the report of the Section 151 Officer on the Annual

Governance Statement for 2018/19.

A concern was raised by a Member that a statement on page 11.9 of the report that there were no significant issues to report in respect of the Council's ICT systems was not accurate. Officers advised that there were some issues with the Council's IT infrastructure; however, the key controls around access rights and security were adequate. A peer Local Authority had been commissioned to review the Council's hard ICT infrastructure and make recommendations for improvement. In response to a Member question around whether or not that work had been completed, officers confirmed that the Council had recently received a report subsequent to the publication of this Committee report. However, there had not been sufficient time for the report to be looked at in detail. The AGS was a draft and could be amended if there was anything substantive in the report that required the statement to be changed.

A Member observed that the final bullet point on page 11.15 of the report relating to business resilience and continuity arrangements was vague. Officers advised that there remained ongoing work in this area but there were assurances in place to manage risk. Members requested that this particular paragraph in the statement be re-worded to make it clearer. Officers made reference to page 11.24 of the report which listed two specific actions to be included in the plan for this financial year to address this area.

In response to a Member question around the costs of the ICT migration project, as detailed on page 11.19 of the report, officers emphasised that this report related to the specific control measures in place and governance assurance arrangements; it did not deal specifically with costs. As part of those governance arrangements updates were routinely reported to Members, with another update due within the next month or so. The last report showed that the ICT migration project was on track in respect of the budget and it was not anticipated that the position would change in the next update report.

A question was raised as to why there had been such difficulty obtaining the report on the audit of the IT system from the peer Local Authority. Officers advised that this had been as a result of a change in personnel at that Authority with inadequate handover arrangements in place. Although a report had now been received it did not appear to contain sufficiently detailed recommendations to address the issues identified and therefore the Council was now looking to re-commission the report with the level of detail that was required from another source. Any actions identified would be prioritised to address specific issues in turn.

Members again drew particular attention to the fact that the report stated there weren't any significant issues and emphasised that the statement should be amended. Officers stressed that the sentence at the top of page 11.9 of the report referred only to the self-assessment on cyber security that was carried out for the LGA and progress made in implementing the recommendations made following penetration testing by an external contractor at the beginning

of the 2018/19 year. It was noted that officers would re-word this paragraph of the Annual Governance Statement so that it was clearer and would include any additional information that had since been received.

In response to a Member question as to whether the sum set aside in the budget of £100k for the server room was as a result of the report received from the other Local Authority, officers advised that this was not the case; however, budget had been set aside in anticipation of works being required although it had not yet been determined exactly what this would cover. It would, however, seek to address recommendations from this review.

In response to a query on what had caused the IT outage, officers emphasised that the Annual Governance Statement focused on the controls and measures in place to maintain the IT infrastructure across the organisation. It was not appropriate for the Section 151 Officer to answer detailed questions on what might have caused particular IT issues. Another Member commented that such questions might be more appropriately raised at a meeting of the Review Committee. Officers pointed out that a report had already been received by the Review Committee on the IT outage. Members stressed that a further report was due to go to the Review Committee in July and these questions could be raised at that meeting.

In response to a Member question relating to page 11.23 of the report and whether it was the case that the Council still used agency staff but used a wider range of agencies, officers confirmed that this issue had been raised previously with the Committee. Agency staff were still used; the Council needed to ensure that it didn't breach EU thresholds in future in respect of using a single supplier. In response to a specific question as to the number of agency staff employed by the Council now compared to when the breach of the Council's Contract Procedure Rules, officers agreed that this information would be provided to Members outside the meeting. Officers further emphasised that the Council must be mindful of the EU procurement regulations; if a particular amount is spent with any one supplier the correct procedures have to be followed including, for example, obtaining three quotes, following a formal EU procedure or framework agreement. The Council was pursuing the option of framework agreements to ensure that the procurement of agency staff could be continued in future.

In response to a Member question around the process for Members agreeing any potential changes to the wording of the Annual Governance Statement in light of comments made by Members and in light of the IT report that had been recently received, officers advised that early indications were that changes were unlikely to require an additional meeting of the Committee to be convened; suggested amendments could, if necessary, be circulated to the Committee.

A Member observed that there was a lot of jargon and use of acronyms within this report without any accompanying explanation. The point was made that the Council should aim for clarity with its reports and should provide an

explanation of any jargon at the beginning of any report.

It was further noted that the name of the Leader of the Council on the Statement should be amended.

Resolved

- (1) That the Annual Governance Statement for 2018/19 be endorsed and referred to the Managing Director and Leader of the Council for signature, subject to the paragraph on page 11.9 of the report relating to the IT system being re-worded and the name of the Leader of the Council being amended, as detailed above.
- (2) That authority be delegated to the Chairman of the Audit Committee to endorse any changes to the Annual Governance Statement following review by the Council's external auditors, subject to the paragraph on page 11.9 of the report relating to the IT system being re-worded. (S151O)

(Note: Cllr M Hoy wished it to be noted that he had abstained from voting on the above decisions.)

99 EXTERNAL AUDITOR REPORTS – UPDATES

The Committee considered the report of the Section 151 Officer summarising the Council's external auditor's audit conclusion in relation to the audit of Rochford District Council for the previous financial year, 2017/18.

In response to a Member question on page 6.6 of the report around whether further work had yet been carried out to address the historic imbalance for the accounts, officers confirmed that this work was still being looked at by the Council's new Technical Accountant. The priority was to prepare the 2018/19 accounts and to ensure the Council meets its statutory accounts deadline; this included a review of debtors, which hadn't yet fully resolved the historic issue that was referred to. However, it was not expected that this would materially impact on the 2018/19 accounts and further detailed work would be undertaken once the 2018/19 accounts had been published.

In response to a supplementary question as to the exact level of materiality, officers advised that for this year it equated to hundreds of thousands of pounds. Officers would confirm the exact figure to Members outside the meeting.

Officers advised, in response to a Member question relating to the VAT arrangements with Sanctuary Housing that the Council had found the original agreement with Sanctuary. There was additional work needed to review all the transactions since the original housing stock transfer took place but there was nothing to indicate any material change to what was reported in last year's accounts.

In response to a Member question as to whether control work was being undertaken on the documents held by the Council, officers confirmed that the Council should be retaining documents at least in line with its document retention policy, i.e, for seven years; for key documents with a longer life span there should be a longer retention period. The Council had better arrangements for storing documents electronically than was the case in the past when paper copies of documents could be lost. In response to a further Member question relating to whether the Sanctuary agreement document made reference to HMRC arrangements, officers confirmed that this was the case. Officers agreed that the Committee would be provided with confirmation as to whether HMRC had agreed the scheme once this had been further verified.

In response to a Member question relating to procedures and audit trails for documentation more generally, officers advised that the Council had in place policies and procedures around document retention and holding documents for a specified length of time. The specific issue raised around VAT went back some ten years but the Council procedures should ensure that relevant documents are retained. There should be an audit trail of all the Council's key financial documents.

Officers confirmed, responding to a Member question about the validity of the document today given that the VAT arrangement was undertaken at a time when the housing stock was owned by Rochford Housing Association, which was then subsequently transferred to Sanctuary Housing, that this should not change the validity of the original agreement.

Resolved

That the updates provided in the appended monitoring sheet in respect of the external auditor's recommendations be noted. (S151O)

100 INTERNAL AUDIT ANNUAL REPORT 2018/19

The Committee considered the report of the Section 151 Officer 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 2018/19.

In response to a Member question relating to the reference to report 16 on page 7.8 of the report, officers advised that this was set out in appendix 3 to the report, on page 7.23, and was a light touch audit. In response to a supplementary question as to whether this would form the foundation for future projects, officers confirmed that a full report had been deferred to 2019/20 as several planned projects would commence then. In response to a question relating to what projects would be included within the scope of the detailed report, officers advised that this issue was not about specific projects, per se, but was more to do with the framework of how the Council manages

projects. The judgment of “not applicable” relates to the fact that this is a light touch audit rather than a full one. It was noted that the wording on page 7.8 of the report in respect of report 16 should be amended from ‘not applicable’ to ‘not given’.

Officers confirmed, in response to a Member question on page 7.21 of the report, that the Council was aware that there were issues with IT currently but was always striving to improve this and aiming to be compliant with the Public Sector Network standard.

A Member emphasised that the report referred to on page 7.22 in respect of in house ICT infrastructure had now been received and had been discussed in an earlier report on the Agenda for this meeting.

Resolved

That the Chief Audit Executive’s opinion on the overall adequacy and effectiveness of the Council’s systems of governance, risk management and internal control be noted. (S151O)

101 INTERNAL AUDIT PLAN AND CHARTER 2019/20

The Committee considered the report of the Section 151 Officer setting out the Internal Audit plan for 2019/20 and presenting within the Internal Audit Charter the way in which Internal Audit will approach its remit.

Officers confirmed, in response to a Member question relating to risk 5 detailed on page 8.6 of the report and the kind of penalties imposed in respect of corporate risk around loss of data, that the Council’s Data Protection Officer would have to report any breaches to the Information Commissioner’s Office, who could levy stringent fines in the nature of up to 4% of an organisation’s turnover.

Responding to a Member query as to what third parties were referred to on page 8.10 of the report in respect of providing external assurance about the Council’s IT infrastructure, risk 14 officers advised that this referred, for example, to the fact that the Council would be commissioning a further external report or the employment of an external company to carry out penetration testing.

Resolved

That the proposed Audit Plan and Charter for 2019/20 be approved. (S151O)

102 SCHEDULE OF BUSINESS FOR THE AUDIT COMMITTEE 2019/20

The Committee considered the report of the Section 151 Officer summarising the Audit Committee’s proposed schedule of business for 2019/20.

Resolved

That the proposed schedule of business for the Audit Committee for 2019/20 be noted. (S151O)

103 ACCOUNTING POLICIES 2018/19

The Committee considered the report of the Section 151 Officer providing details of revisions to some accounting policies that will be implemented in preparing the Council's financial statements for 2018/19.

A Member observed that there should be a note of the methodology for depreciation of buildings in respect of paragraph 1.13 on page 10.3 of the report. Officers advised that this would depend on different types of building. The Council takes external advice from its valuers in terms of what the useful economic life of the asset is. It was noted that although this was referred to in the report, this could also be included within the accounts to make this clearer.

A Member drew particular attention to the fact that Councillor allowances are buried in the financial statements and asked whether they can be more openly presented. Officers advised that a lot of information has to be presented in the accounts and there is a particular order in which some of the primary information needs to be presented; however, it may be possible in future to look at the formatting of the accounts and try to remove notes where they were not material and to reduce the volume of them and make them easier to read and understand.

In response to a Member question about the source of the new policy, officers confirmed that this was reviewed every year to make sure it was in line with best practice and new accounting standards. Depreciation is driven by external valuers to make sure the Council values its assets in line with their useful economic life, in line with CIPFA Code. External auditors have to approve these changes in accounting policies. It was noted that it would be possible to add a footnote to the accounts to make the source clear.

Resolved

That the Accounting Policies be approved for inclusion in the Annual Financial Report. (S151O)

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

The Committee considered the report of the Section 151 Officer on a review of the Council's risk management framework and corporate risk register.

Resolved

- (1) That the updated risk management policy and framework be approved.
- (2) That the content of the corporate risk register for 2019/20 be approved.
(S1510)

105 LOCAL GOVERNMENT AUDIT COMMITTEE BRIEFING

The Committee noted the external auditor’s Audit Committee Briefing.

The meeting closed at 8.33 pm.

Chairman

Date

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