

Minutes of the Audit & Governance Committee held at Riverside, Lowestoft
on **Thursday, 15 March 2018** at **6.02pm**

Audit & Governance Committee Members Present:

Councillors S Woods (Chairman), E Back, M Barnard, P Byatt, M Cherry, L Coulam, K Robinson and L Smith.

Other Members present:

Councillor B Provan – Cabinet Member for Resources
Councillor Y Cherry – Public Gallery

Others in attendance:

T Poynton – Audit Manager, Ernst & Young
K Suter – Executive Director, Ernst & Young

Officers Present:

L Fuller (Audit Manager), S Martin (Head of Internal Audit), S Mills (Corporate Counter Fraud Manager), A Photi (Democratic Services Officer) and S Taylor (Finance Manager, Financial Compliance)

1 APOLOGIES / SUBSTITUTES

Apologies were received from Councillors I Graham and A Green.

Councillor M Cherry substituted for Councillor A Green.

2 DECLARATIONS OF INTEREST

No declarations of interest were made.

3 MINUTES

RESOLVED

That the Minutes of the Meeting of the Audit & Governance Committee held on 11 January 2018 be approved as a correct record and signed by the Chairman.

4 TREASURY MANAGEMENT AND INVESTMENT STRATEGY FOR 2018/19

The Cabinet Member for Resources introduced the report which set out the Council's Treasury Management Strategy Statement and Prudential Indicators for 2018/19 and included the Capital Plans (including Prudential Indicators) and the Treasury Management Strategy including Treasury Indicators.

The report recommended that the Treasury Management Strategy Statement for 2018/19 and Prudential Indicators were approved and adopted.

The Finance Manager advised the Committee that each year, every local authority was required to approve a policy strategy, which would govern its day-to-day treasury

management objectives for that year. In this context, treasury management was the balance between maximising performance from investments, money market and capital market transactions whilst minimising the risk to the Council’s cash flows and banking. The overriding principle was security of the Council’s money.

The report ultimately sought a recommendation from the Audit & Governance Committee to Full Council that the Treasury Management Strategy Statement at Appendix A and the Prudential Indicators at Appendix B be approved.

The Finance Manager advised the Committee that there were errors in the ‘Government’ and ‘Corporates’ columns in the ‘Approved investment counterparties and limits’ table on page 23 of the report. The following corrections were highlighted in yellow:

Credit Rating	Government	Corporates
A+	£10m 5 years	£10m 3 years
A	£10m 5 years	£10m 2 years
A-	£10m 5 years	£10m 13 months
None	£5m 5 years	£5m 5 years
Pooled funds	£10m per fund	

A Member asked if there was a different arrangement for the Housing Department in relation to the Annual Minimum Revenue Provision Statement, as it had no provision? The Finance Manager explained that it did not apply to the Housing Department as it fell under other statutory legislation and the setting of a minimum revenue provision was not required.

There being no further questions, it was

RESOLVED

That the adoption of the Treasury Management Strategy Statement for 2018/19 and the Prudential Indicators 2018/19 be recommended to Full Council.

5 CERTIFICATION OF CLAIMS AND RETURNS 2016/17

The Cabinet Member for Resources introduced the report which summarised the results of Ernst & Young’s (E & Y) certification work on the Council’s claims and returns.

The report showed that the Council’s housing benefit subsidy claim totalled £36,723,748. An indicative audit fee of £16,740 was set for this work, but the actual fee was £7,330 higher at £24,070 due to five lots of additional 40+ testing which needed to be completed compared to two lots of additional 40+ testing last year. The audit fee for 2015/16 was £8,351.

Section One of the report detailed the findings from E & Y's work. Section Two of the report detailed the 2016/17 certification fee and provided further explanation for the fee charged. Section Three of the report stated that the indicative fee for 2017/18 had been set by Public Sector Audit Appointments Ltd at £11,015.

The Cabinet Member for Resources invited the E & Y Audit Manager to present further information on the report. The E & Y Audit Manager gave an explanation of the testing and the scope of the work undertaken in 2016/17.

Referring to Housing Benefits Subsidy Claims, a number of amendable errors had been identified. Although the errors were considered high compared to other councils, there were no obvious patterns and no cause for concern. The amount of claims processed was high, which resulted in a higher number of manual errors; however this was considered low in relation to the number of claims.

Referring to the 2016-17 Certification Fees, a scale fee variation of £7,330 had been proposed and was subject to Public Sector Audit Appointments (PSAA) approval.

Looking forward, minor changes were expected in the work yet to be undertaken and the E & Y Audit Manager commented on the good working relationship between E & Y and the Council.

Questions from Members

- **Members were disappointed at the number of faults and asked for an explanation.** The Finance Manager advised that the report was immediately forwarded to Anglia Revenues Partnership (ARP) for a response which was expected in the coming days. A high number of claims had been processed and the errors had been identified as manual errors, however an explanation had been requested and the response would be shared with the Committee.
- **Did other authorities with whom ARP dealt with experience a high amount of errors and were the errors connected with an individual or particular team?** The E & Y Executive Director advised that Suffolk Coastal and Waveney District Councils were the highest. The errors were not isolated to an individual or team. The errors were assumed to be attributed to the extremely high volume of claims.
- **A Member commented that the "Rent Allowances – Earned Income and Earnings Disregards" errors were high and enquired how was this tested?** The E & Y Executive Director explained that 20 tests were carried out initially followed by another 40 more extensive tests after which the findings were reported.

The Chairman advised that the Committee would await the results from ARP and reserve the right to raise the item at the next meeting.

There being no further questions, it was:

RESOLVED

That the Committee noted the findings from Ernst & Young LLP's work on certifying the Council's claims and returns.

6 EXTERNAL AUDIT PLAN FOR 2017/18

The Cabinet Member for Resources introduced the report which summarised E & Y's external audit plan which provided their assessment of the key risks driving the development of an effective audit for the Council and outlined their planned audit strategy in response to those risks.

The Audit Plan also summarised the evaluation criterion E & Y would be using as part of their Value for Money Conclusion.

Materiality had initially been set at £1.570 million for the audit of the Council's financial statements.

The Council's proposed audit and certification fee for 2017/18 totalled £68,289, which was a decrease of £13,561 compared to 2016/17 (£81,850) and related to a £1,006 reduction on core audit work and a £12,555 reduction on the certification of claims and returns.

The E & Y Executive Director gave an overview of the 2017/18 audit strategy and summarised the risks which were highlighted in the report. Two significant risks had been identified which included 1) risk of fraud in revenue and expenditure recognition and 2) misstatements due to fraud or error.

Other areas of audit focus which were not classified as significant risks, but were still important when considering the risks of material misstatement to the financial statements and disclosures, included 1) property, plant and equipment valuation and 2) pension liability valuation.

The creation of East Suffolk Council had been identified as a Value for Money risk. E & Y would consider whether key decisions had been put into the right decision making bodies and review what measures the Council had put in place to ensure that the new authority would take informed decisions going forward.

The E & Y Executive Director took the Committee through the audit process, the scope of the audit and the timetable of communication and deliverables. He explained that working closely together with the Council was key in order to clearly understand when the Council was ready to undertake the audit and to ensure that progress was kept on track.

Questions from Members

- **What was the reason for the change in deadlines?** The Finance Manager explained that central government had brought the deadline forward for local government to allow earlier publication of Whole of Government accounts.

- **A Member commented that the report was clear and simple to follow and asked when the Committee could expect to see the outcome of the audit process with regards to assets?** The E & Y Executive Director advised that a report would be published in July which identified risks and any other findings from the audit.

The Chairman commented he was pleased to see that the Value for Money Risks associated with the creation of the new council had been identified.

There being no further questions, it was

RESOLVED

That Ernst & Young LLP's External Audit Plan for 2017/18 be received.

NB: The E & Y Executive Director and Audit Manager left the meeting at this point in the proceedings, at 6.33pm.

7 CORPORATE RISK MANAGEMENT UPDATE

The Cabinet Member for Resources introduced the report which gave an overview and update on how the Council's strategic and operational risks were managed. Members were asked to make comment on the corporate strategic risks from the Council's current Corporate Risk Register, which was maintained by the Corporate Risk Management Group.

Following review by Zurich (the Council's Risk Management Consultants), the Corporate Risk Management Process and Toolkit had been updated to include an additional category (major impact) and the likelihood criteria of risks including further details. Members were asked to note the relevant updates, to review the key risks on the register at regular intervals, and to raise any concerns they may have going forward.

The Finance Manager advised Members that Appendix A of the report which displayed the "Risk – and opportunity – management process and toolkit" had been inadvertently omitted from the agenda pack. A printed copy had been provided for each Member at the meeting. The Finance Manager took Members through the documents and explained the risk management process.

Members were advised that a joint tool kit had been used by Zurich for both Suffolk Coastal (SCDC) and Waveney (WDC) District Councils. Members of the SCDC Audit & Governance Committee (A & G) requested that the "Likelihood" category bandings in the risk management process be changed as some of the percentage ranges were considered to be too broad.

Questions from Members

- **A Member asked for an explanation as to why the Asset Management Strategy had a "Red" current corporate risk rating.** The Finance Manager advised that the Asset Management Strategy priorities were being looked at. There was a requirement for the Capital Strategy to be brought to Full Council, which would cover asset management.

The Head of Internal Audit advised that further work was required in this area to satisfy Internal Audit that the risks had been sufficiently mitigated. New appointments had been made to the Asset Management Team which now had experienced Officers from various corporate environments. Outstanding issues needed to be resolved before April 2019 when new statutory requirements would be coming into effect.

- **Were there any issues on the corporate risk list that the Committee should be particularly concerned about?** The Finance Manager explained that the “Medium term Overview” was always a concern. The National Audit Office had issued a recent report on the financial stability of local authorities which mainly affected upper tier authorities; however it mentioned councils drawing on their reserves which would create a long term issue for all local authorities. The report was available to Members upon request.

ICT (including Disaster Recovery for ICT) was always rated as “Amber” as councils in general were a target for cyber attacks, therefore potential risks would always exist.

- **Had the “Amber” risk rating against the creation of East Suffolk Council been reduced as a result of the go ahead decision?** The Finance Manager explained that the risks related to the work that needed to be undertaken to ensure that that the new council came into effect. There were currently 265 high level work packages that needed to be completed to bring the new Council into existence. The risk rating remained as “Amber” due to the volume of work required.

There being no further questions, it was

RESOLVED

That the Corporate Risk Management Update be noted.

8 INTERNAL AUDIT: ANNUAL INTERNAL AUDIT PLAN 2018-19

The Cabinet Member for Resources introduced the report which presented the proposed Internal Audit Plan for 2018-19 as agreed with the Corporate Management Team. The construction of the Plan involved many factors and drivers and a diagram was incorporated within the Plan, which illustrated the overall methodology.

This report was in accordance with the Committee’s terms of reference which stipulated that the Committee was to approve the internal audit work plan and to promote the value of the audit process.

The Head of Internal Audit explained the current resourcing of the Internal Audit Team. An additional Auditor had been newly appointed and the Internal Audit Service now consisted of five Full Time Equivalent (FTE’s).

The Head of Internal Audit took Members through the overall strategic plan and reminded the Committee that the Audit Plan was a fluid document and subject to changes as required. The last column in the plan advised of the proposed quarter in which audits

would be undertaken and the budgeted number of days. With regard to data protection, further support and training would be offered to all Members.

The Committee was reminded that, in accordance with best practice, there were fifteen days worth of work available to the Committee which could be used to increase or adjust the scope of existing items where there were particular assurance concerns as well as looking into new items.

With regard to the Member Working Groups for the creation of the new Council, the Head of Internal Audit advised that she was not on any of the groups, but would be conducting reviews and providing input.

Questions from Members

- **Was the Head of Internal Audit's Role with regard to data protection also connected with Freedom of Information (FOI)?** The Head of Internal Audit explained that she was the strategic lead for FOI, and the Head of Customer Services was the operational lead. FOI's had increased as the public had become more informed of their availability.
- **A Member asked for clarification on what the impact would be on the on the Audit Plan timeline with the creation of East Suffolk Council.** The Head of Internal Audit explained that the statutory duties had to be delivered within the year regardless of any additional work that was being carried out. This had been factored into the approach and management of the programme. Copies of issued audit reports would be brought to future meetings of the A & G Committee for comment.
- **Members raised concerns over the Legal Teams capacity to deal with the growing demand for their services with the increased property buying and other asset related activities.** The Head of Internal Audit advised that resources were in hand with the Head of Legal and suggested that the Committee put any questions related to this area directly to the Head of Legal for a comprehensive response.

There being no further questions, it was

RESOLVED

That the Annual Internal Audit Plan 2018-19 be approved.

9 CORPORATE FRAUD BUSINESS PLAN 2018-19

The Cabinet Member for Resources introduced the report which detailed the Council's proposed approach to the prevention, detection and prosecution of fraud and corruption. The plan set out the desired outcomes and management processes aligned to the Council's strategic objectives to provide value for money by identifying any fraud and error across all the Council's activities.

The Head of Internal Audit gave an overview of the Corporate Fraud Services Business Plan 2018-19.

The Corporate Fraud Team at Suffolk Coastal and Waveney District Councils formed part of the Internal Audit Services Partnership arrangements with Ipswich Borough Council. The Corporate Fraud Team had expanded during 2017-18, with the successful appointment of a second full time Corporate Fraud Investigator and a part time Corporate Fraud Intelligence Officer. Partnership arrangements provided an opportunity to share knowledge and expertise; with a further three FTE posts appointed at Ipswich Borough Council. Two of the Corporate Fraud Investigators were Accredited Financial Investigators, with a further two Accredited Financial Investigators based at Ipswich Borough Council. This provided a significant advantage to the Council as it enabled the recovery of financial losses due to criminal activity, as well as the ability to tackle broader criminal conduct.

In relation to the national context, tackling fraud in local government continued to remain high profile. The “Protecting the English Public Purse 2016” report issued by the European Institute for Combatting Corruption and Fraud had specifically identified the following:

- ‘Right to Buy’ was one of the largest emerging threats in the Country.
- Procurement fraud was continuing to rise; Insurance fraud was continuing to rise with the number of cases doubling.

The Head of Internal Audit reassured the Committee that there was a broad and highly qualified skill set within the team. An annual report of outcomes would be presented to the A & G Committee each year.

Questions from Members

- **Would the Committee be privy to detailed figures in the annual report of outcomes and was it possible to have comparative figures with Suffolk Coastal District Council (SCDC)?** The Head of Internal Audit advised that comparative figures would be available against both SCDC and Ipswich Borough Council. Specific detail could be provided and discussed during closed session. She advised that the majority of work being undertaken for Waveney District Council was due to the housing stock.
- **Why was “recruitment” listed as a fraud activity in the Corporate Fraud Business plan?** The Corporate Counter Fraud Manager explained that 89k national cases of identity fraud had been identified in the first six months of 2017. With regard to passports, references, certificates etc., there was a need to provide training on what to look out for in identifying false documents.
- **Was it possible to check all elements with a Corporate Fraud Service team of 3.2 FTE Officers?** The Corporate Counter Fraud Manager explained that training had been conducted with Home Choice employees on what to look out for. The process also highlighted certain areas of concern which were passed on to the team.

In addition, the National Fraud Initiative identified the areas to focus on. ‘Right to Buy’ and tenancy fraud were fluid elements and continued areas of focus.

There being no further questions, it was

RESOLVED

That the Corporate Fraud Business Plan 2018-19 be endorsed.

10 AUDIT & GOVERNANCE COMMITTEE 2018/19 WORK PROGRAMME

The Head of Internal Audit introduced the report which asked the Committee to consider the proposed work programme for 2018/19 which reflected the Terms of Reference of the Committee, along with proposed timings for the individual reports and the report authors.

Members were asked to note that the Work Programme was a live document and therefore subject to change over the coming year. A number of changes in the scheduling of reports had been identified since the publication of the report, as they fell within the period whereby East Suffolk Council would be in existence. The Committee was asked to note the following amendments which would be reflected in the next updated work programme:

Draft Annual Governance Statement 2017/18 for joint consideration with the Overview & Scrutiny Committee, scheduled for the 7 June 2018 meeting. This report was removed from the work programme as the information required for the report would not be available by this time, therefore the final version would be presented at the 25 July 2018 meeting.

- The 7 June 2018 A & G meeting would not be going ahead and all reports scheduled for the June meeting would move to the 25 July 2018 meeting. The reports included:
 - Indicative Annual Fee Letter 2018/19
 - Annual Internal Audit Report 2017/18
 - Corporate Fraud Annual Report 2017/18
 - Code of Corporate Governance Review
 - Current Position of the Work Programme (standing item)
 - Internal Audit Status of Recommendations (Exempt standing item)
 - Internal Audit – recently Issues Report (Exempt standing item)

- The scheduling of the following items had been brought forward from the 20 September 2018 meeting to the 25 July 2018 meeting:
 - External Audit results Report
 - Audited Statement of Accounts
 - Annual Governance Statement

- The following reports were subject to rescheduling pending decisions pertaining to the creation of East Suffolk Council:
 - Capital Programme – scheduled for 17 January 2019
 - Housing revenue Account Budget – scheduled for 17 January 2019
 - Treasury Management & Investment Strategy including Prudential Indicators – scheduled for 17 January 2019
 - Budget/Council Tax Setting – scheduled for joint consideration at the 7 February 2019 Overview & Scrutiny meeting

- The following reports scheduled for the 7 March 2019 meeting were to be advised in due course subject to the establishment of the East Suffolk Council A & G Committee:
 - Internal Audit – Annual Plan 2019-20
 - Corporate Anti-Fraud Service Business Plan 2019-20
 - A & G Committee 2019/20 Work Programme
 - A & G Committee Terms of Reference

The Chairman advised that all reports scheduled for presentation at both A & G and Cabinet meetings needed to be presented to A & G before Cabinet. He realised that issues sometimes existed with the timings; however he requested that this be avoided in the future.

A Member asked if further support was required from the Committee in increasing the Internal Audit Team's resources in order to carry out the Work Programme. The Head of Internal Audit advised that the team historically placed requests to increase their resources when savings had been identified as a result of the work they had undertaken. The team increased as savings were demonstrated which covered the cost of service. If the strategy continued and the work continued to grow, they would look at requesting further resources as needed.

A Member commented that the Work Programme was expected to change and that the A & G Committee would support and accommodate any changes.

There being no further questions, it was

RESOLVED

That the Audit & Governance Committee's Work Programme for 2018/19, as attached at Appendix A to Report, be approved, subject to the agreed amendments.

11 EXEMPT/CONFIDENTIAL ITEM

RESOLVED

That under Section 100(A)(4) of the Local Government Act 1972 (as amended), the public were excluded from the meeting for the following items of business on the grounds that they involved the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Act.

12 INTERNAL AUDIT: STATUS OF RECOMMENDATIONS

The Cabinet Member for Resources introduced the report which listed the status of all recommendations that had been made as a result of Internal Audit reviews over the past 3 years, and provided an overview of the number of recommendations that had been completed and those that were pending.

RESOLVED

That the Audit & Governance Chairman would receive feedback from Internal Audit prior to the next meeting to determine whether the responsible Officers would be required to attend the next meeting.

13 MINUTES

RESOLVED

That the exempt Minutes of the Meeting of the Audit & Governance Committee held on 11 January 2018 be approved as a correct record and signed by the Chairman.

The meeting was concluded at 7.45pm.

Chairman