Unconfirmed

Agenda Item 5

Minutes of a Meeting of the **Audit and Governance Committee** held in the **Deben Conference Room** at **East Suffolk House, Riduna Park, Melton** on **Thursday 7 March 2018** at **6.30pm**

Members of the Committee present:

G Lynch (Chairman), A Cooper (Vice-Chairman), J Bidwell, P Coleman, P Dunnett, J Kelso, S Mower, P Mulcahy

Other Members present:

S Lawson

Officers present:

K Blair (Head of Operations), L Fuller (Audit Manager), M Makin (Democratic Services Business Manager), S Martin (Head of Internal Audit), S Mills-James (Corporate Fraud Manager), T Snook (Commercial Contracts Manager (Leisure)), S Taylor (Finance Manager and Deputy S151 Officer)

Others present:

K Suter, Executive Director, Ernst and Young LLP
T Poynton, Audit Manager, Ernst and Young LLP

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1. Apologies for Absence and Substitutions

Apologies for absence were received from Councillor Hedgley and Councillor Whiting.

2. Declarations of Interest

There were no declarations of interest.

3. Minutes

RESOLVED:

That the Minutes of the Meeting held on 7 December 2017 be confirmed as a correct record and signed by the Chairman.

4. Certification of Claims and Returns 2016/17

The Committee received report **AG 01/18** of the Cabinet Member with responsibility for Resources, who outlined the Executive Summary of the report and invited Mr Poynton, Audit Manager for Ernst and Young LLP (EY) to speak to the report.

Mr Poynton highlighted to the Committee that the work had been the last official reporting for the 2016/17 financial year, and had been in relation to housing benefit subsidy claims.

It was confirmed that the deadline for the certification had been met. The claim had been subject to qualification, and the Committee's attention was drawn to the results contained in the first section of Appendix A of the report. He highlighted that although the number of errors in the qualification letter had been high, this was not considered to be outside of the norm when compared to other councils.

The methodology used for certification by EY was explained to the Committee as being defined by the Department for Work and Pensions (DWP). The types of benefits administered by the Council for private tenants and temporary housing were summarised. The Committee were informed that the errors found related to rent allowances, and had been due to miscalculations.

My Poynton explained the certification process to the Committee; following an initial testing of twenty cases, if errors were found then EY either used a "drill down" approach or tested a further forty cases. In using the latter a random sample was taken from the whole population of the benefit type, and in the former a particular benefit type where an error had been identified would be focused on, and the sample was taken from cases where this benefit type was applicable. He advised that following discussion with the Anglia Revenues Partnership (ARP), the "drill down" approach was used for further testing.

Looking forward to 2018/19, Mr Poynton noted that the new council for East Suffolk would become responsible for appointing reporting accountants. Although the nature of work had the potential to change, he expected it to be broadly similar, and advised the Committee that EY wished to work with the new council. He acknowledged his awareness that an alternative supplier could be appointed but felt that it would be efficient for the new council to work with EY for certification and audit.

The Chairman invited questions from Members to Mr Poynton.

A member of the Committee noted that errors from the 2015/16 certification had caused a "knock on" effect on the 2016/17 certification, and asked if this would happen again for the certification due for the 2017/18 year. Mr Poynton explained that this would be the case, as the methodology set by the DWP meant that EY would be bound to undertake extended testing on areas where errors have been found in previous year whether an error was found in the initial sample tested or not.

Mr Suter, Executive Director for EY, highlighted to the Committee that it was the Council's responsibility to improve processes and reduce the errors being made.

The second point of the report's executive summary was referred to by another member of the Committee. He asked for a definition of 40+ testing. In response Mr Poynton reiterated his earlier explanation of the sampling options that had been available to EY when errors were found in the initial sample of twenty cases.

The Chairman stated he found the increase in errors identified disappointing, and noted that this had also caused an increase in the annual fee which would be replicated going forward. He was of the view that the finance team needed to investigate the reasons for the errors and suggested they used a similar "drill down" approach when doing so.

The Finance Manager informed the Chairman that following receipt of the qualification letter, he had contacted the ARP requesting the reasons for the errors identified and was awaiting a response. He assured the Committee that the reasons for the errors would be shared with them as soon as they became known.

A member of the Committee enquired if the errors identified may have been caused by changes in government policy. It was explained by Mr Poynton that they had been due to manual error, and he cited that this was not unusual given the number of complex, changing cases that officers had worked on in the year.

In response to a supplementary question from the same Member regarding staffing levels, the Finance Manager explained that staffing levels had not been reduced, but there had been a high turnover of officers who processed benefit claims; it was confirmed that a 100% quality review was maintained for new staff members during training. He continued and highlighted to the Committee that the Council had a significant number of claimants who all may have a number of changes in circumstances leading to a significant number of claims being processed during the year.

The Finance Manager acknowledged that the number of errors identified was high, and reiterated that he would be working to identify the causes, and this would be reported to the Committee.

The same member of the Committee returned to the Finance Manager's comments on staff turnover and questioned why this was the case. The Finance Manager advised he would need to seek information from the ARP before being able to comment.

There being no further questions, the Chairman moved to the recommendations; it was proposed, seconded, and unanimously

RESOLVED:

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

2. That the Committee noted the increase in errors identified by Ernst and Young LLP, and recommended that the Finance Team adopted a similar "drill down" approach to identify the cause of the errors.

5. External Audit Plan for 2017/18

The Committee received report **AG 02/18** of the Cabinet Member with responsibility for Resources, who outlined the Executive Summary of the report and invited Mr Suter, Executive Director for EY to speak to the report.

Mr Suter set out the two main responsibilities of the External Audit Plan; to draw an opinion of the material accuracy of financial statements, and to draw a conclusion regarding value for money in terms of resources.

Section 2 of the plan, where key risks were set out, was highlighted to the Committee. Mr Suter noted the similarity of the findings with previous years, and attributed this to there having been no significant changes to the work structure of the Council.

It was explained to the Committee that EY considered the key risks to be the risk of fraud through revenue and expenditure recognition, and misstatements due to fraud or error. Mr Suter highlighted the need to ensure the right funds were in the right accounts and the particular risk of fraud through misuse of management override processes.

The Committee were advised that the External Audit Plan also took into account ensuring the actuaries used for valuation of property and pension funds were appropriate persons.

Mr Suter reported that 2017/18 had been a stable and consistent year for the Council, with no significant changes having taken place.

The Committee's attention was drawn to the Value for Money risks contained in section 3 of the External Audit Plan. Mr Suter advised that in previous years EY had reported on financial resilience, but had not done so this year. He continued to say that this was due to sound arrangements and appropriate reserves being identified in previous years, and that the Council's arrangements in that regard had remained unchanged. He assured the Committee that the Council's financial resilience was monitored in the audit process, but was not considered a significant risk in the 2017/18 financial year.

Advice was given that the key risks, highlighted in that section of the External Audit Plan, centred on governance arrangements, in particular the work being undertaken in respect of the creation of a new council for East Suffolk.

It was noted by Mr Suter that the deadline for publication of audited accounts for the 2017/18 financial year was 31 July 2018. He highlighted that the deadline differed from previous years and that the change brought an element of risk; a shortened deadline for accounts had the possibility to cause a loss in the quality of accounts produced. He advised that EY had a specific timetable for working with several councils, and needed to adhere to the timetable so no one client was at a disadvantage in meeting their deadlines.

Mr Suter confirmed that EY had been liaising with officers at the Council and reported that conversations had been of a positive nature, and a programme of work was in place in which meant he had confidence that the publication deadline of 31 July 2018 could be met.

The Chairman invited questions from Members to Mr Suter.

A member of the Committee asked about EY's experience regarding the creation of a new council from existing councils. Mr Suter advised that EY had no direct experience, but was able to draw parallels with their experiences of mergers and acquisitions in a variety of different sectors. He described EY as looking at the situation positively.

The Chairman was pleased to see the level of savings made for the Council through the reduction of the annual fees for the External Audit Plan. He also acknowledged that the next meeting of the Committee had been moved from June to July 2018 to accommodate the change in the account publication date, and also the positive work that had been done by the Council's Finance Team in that regard.

There being no further questions, the Chairman moved to the recommendation as set out in the report; it was proposed, seconded, and unanimously

RESOLVED:

That the 2017/18 External Audit Plan was considered and the contents of the report commented upon.

Mr Suter and Mr Poynton left the meeting at this point.

6. Treasury Management and Investment Strategy for 2018/19

The Committee received report **AG 03/18** of the Cabinet Member with responsibility for Resources, who outlined the Executive Summary of the report.

He advised the Committee that there had been significant changes to the strategy for the forthcoming year, as Arlingclose had been appointed as Treasury Advisors in place of Capita.

The Committee's attention was drawn to the main areas of the Treasury Management and Investment Strategy, as set out in section 2.1 of the report and also its appendices.

It was explained that although the Council did not have any internal or external borrowing, and did not expect to take on any borrowing in the near future, a borrowing strategy was required to be in place.

The Cabinet Member with responsibility for Resources covered the investment strategy contained within Appendix A of the report which stated that during the previous twelve months the Council's investment balance had ranged between £39.5 million and £68.0 million. He added that following advice from Arlingclose, the limit of money to be invested to any single organisation had been lowered from £20.0 million to £9.0 million.

The Finance Manager was invited to speak to the report.

It was highlighted to the Committee that in the table at the top of page 76 of the report relating to approved investment counterparties and limits, the figure for the cell corresponding to the Government column and the credit rating "None" should read "£5m 25 years" and not "£15m 25 years".

This was confirmed this was a typographical error and the Committee were advised it would be corrected prior to the Treasury Management and Investment Strategy being presented to Council.

The Chairman invited questions from Members to the Finance Manager.

A member of the Committee enquired if the objective of the investment strategy, as stated in page 75 of the report, for the Council to aim to achieve a total return that is equal or higher than the prevailing rate of inflation, was a long term objective.

In response, the Finance Manager explained that the Council had adopted a more diverse investment model following the change to Arlingclose as Treasury Advisors; a significant balance would still be held in banks, which was deemed prudent given upcoming Capital Programmes, however the Council had invested in a property fund alongside the other Suffolk councils.

Although only a comparatively small amount of £2.5 million had been invested, the Finance Manager reported that this had already generated significant returns, and other investment options were to be explored.

The Chairman was of the view that Arlingclose as the Council's Treasury Advisors would be very beneficial and the change had been a good decision. He made reference to a briefing that the Committee had received from Arlingclose immediately prior to the meeting and felt this had been helpful to Members.

He concluded that if the Council was to invest in property funds, it would be prudent to look to invest within the district rather than an unfamiliar area, and that there was a need for the Council to maximise the potential of their assets.

There being no further questions, the Chairman moved to the recommendations as set out in the report; it was proposed, seconded, and unanimously

RESOLVED:

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

7. Corporate Risk Management Update

The Committee received report **AG 04/18** of the Cabinet Member with responsibility for Resources, who outlined the Executive Summary of the report.

Section 3.5 of the report was highlighted to the Committee, in particular the updates made to the Risk Management Toolkit/Matrix by adding the 'Major' impact category and the review of the likelihood percentages.

The Cabinet Member with responsibility for Resources outlined both the new corporate risks contained on pages 96 and 97 of the report, and the table containing the overview of risk ratings.

The Chairman invited questions from Members to the Finance Manager.

A member of the Committee asked if the risk score in respect of asset management strategy, outlined in section 5.2 of the report, related to the change of Treasury Advisors to the Council.

In response, the Finance Manager explained that the risk score related primarily to concerns around property assets. In line with the new code from the MHCLG, a single capital strategy would be required from 2019/20, and this would incorporate asset, governance, commercial investment, and property strategy. He confirmed that the strategy would need to be approved by the new council and would set out the governance arrangements.

The Chairman highlighted the likelihood percentages set out in the Corporate Risk Management Process and Toolkit; the Committee was of the opinion that the percentage range for category C "Significant" was very large, and it was minded that the top threshold of the rating should be lowered from 70% to 60%, and accordingly the lower threshold of category B "High" should be lowered to 60%.

The Finance Manager established that the percentages had been formulated by the Corporate Risk Management Group following advice from Zurich Municipal, and he would be happy to report the recommendation to that group.

There being no further questions, the Chairman moved to the recommendations; it was proposed, seconded, and unanimously

RESOLVED:

1. That the current key risks and corporate risk appetite were commented upon, and the latest update noted.

2. That the Finance Manager would report to the Corporate Risk Management Group the recommendation that the Corporate Risk Management Process and Toolkit was updated thus:

    a. The likelihood percentage range for category B “High” is amended from 70% - 90% to 60% - 90%
    b. The likelihood percentage range for category C “Significant” is amended from 30% - 70% to 30% - 60%

The Finance Manager left the meeting at this point.

8. Internal Audit: Annual Internal Audit Plan 2018/19

The Committee received report **AG 05/18** of the Cabinet Member with responsibility for Resources, who outlined the Executive Summary of the report and invited the Head of Internal Audit to speak to the report.

The Head of Internal Audit advised the Committee that the Internal Audit Plan outlined the work to be undertaken for the coming financial year, and introduced the Audit Manager, whose team would be undertaking the work.

The Committee’s attention was drawn to the structure chart on page 103 of the report. The Head of Internal Audit explained the responsibilities of the Audit Manager and the Corporate Counter Fraud Manager.

The diagram on page 104 of the report was explained to the Committee as displaying the drivers that had contributed to the development of the Internal Audit Plan. The Head of Internal Audit spoke on the significant work undertaken by officers to create the plan.

The Internal Audit Plan was described as being dynamic, risk based plan.

The risk assessment model employed to score the relative risks of each of the identified systems in the “audit universe” was brought to the Committee’s attention. The risk attributes assessed, as outlined in section 7.4 of the report on page 105, were described as not being an exhaustive list but had been used to formulate the Internal Audit Plan for the 2018/19 year.

The impact of recent changes in legislation, particularly in respect of homelessness and safeguarding, were outlined as risks that had been considered when the Internal Audit Plan was formulated.

The Head of Internal Audit confirmed to the Committee that an independent team would audit compliance with the new General Data Protection Regulations (GDPR), as she was also the Council's Data Protection Officer. It was confirmed that training on GDPR for key officers would be rolled out over April and May 2018, as would bespoke training for Members in respect of their data protection requirements when undertaking Ward Member work

The Head of Internal Audit was not involved with the Member Working Groups for the creation of the new council, but said she would work with the groups as required.

The budgeting of fifteen days to Members Requests from the Committee was highlighted. The Head of Internal Audit also paid particular regard to the areas of activity relating to safeguarding, key fundamental systems and commercial rents.

The areas of activity relating to asset management, contract management and strategic partnerships were discussed. The Head of Internal Audit reported positive co-operative working with the Head of Operations in regard to risk concerns in those areas.

The Chairman invited questions from Members to the Head of Internal Audit.

A member of the Committee asked if Internal Audit would be auditing the errors picked up by EY in their certification of claims and returns. The Head of Internal Audit stated that the reasons for the errors were being investigated by the Finance Manager and was conscious she did not want to duplicate work already undertaken by the external auditors.

She explained her duties regarding internal processes, and advised the Committee that should failings under governance and controls be identified as the cause of the errors, there would be scope for further work by Internal Audit regarding due diligence.

Another member of the Committee referred to the number of budgeted days for Members Request and noted that when the remit was under the Scrutiny Committee, twenty days had been budgeted.

This was acknowledged by the Head of Internal Audit and she explained that the number of budgeted days had been reduced as it had been felt that the longer length of time had not always been required.

Section 7.6 of the report, where Waveney District Council was referred to as the Council's preferred partner, was referenced by the Vice-Chairman. He asked what the reasoning behind the statement was.

In response, the Head of Internal Audit advised him that this was a use of phrase and was not a legal definition. She added that Ipswich Borough Council could also be considered a preferred partner.

A member of the Committee enquired to the progress in replacing the Head of Housing. It was the understanding of the Head of Internal Audit that the Strategic Director responsible for Housing had taken full responsibility for Housing and was investigating how to progress movement in that area.

The Chairman noted that some of the areas of activity in the report were specific to Waveney District Council, and would be areas of activity for the new council. He asked for clarification on what the Lowestoft Charter was.

The Lowestoft Charter was explained as having been set up post 1974 when Waveney District Council was created, to administer civic and ceremonial matters due to Lowestoft not having its own parish at that time.

The Charter had an annual budget of £19,000 and was annually assessed by the Head of Internal Audit. She continued to say that following the creation of Lowestoft Town Council in 2017, it was within her programme of work to ensure the Lowestoft Charter was closed down in the correct manner.

The Chairman stated it was important that the Head of Internal Audit's role remained independent when moving forward to the new council.

There being no further questions, the Chairman moved to the recommendation as set out in the report; it was proposed, seconded, and unanimously

RESOLVED:

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

9. Corporate Fraud Business Plan 2018/19 (AG 06/18)

The Committee received report **AG 06/18** of the Cabinet Members with responsibility for Resources and Housing. The Cabinet Member with responsibility for Resources outlined the Executive Summary of the report, and invited the Head of Internal Audit to speak to the report.

The Head of Internal Audit assured the Committee that the Corporate Fraud Business Plan was a key, high level document, which outlined the proposed approach to the prevention, detection and prosecution of fraud and corruption.

The Corporate Counter Fraud Manager and Corporate Fraud Service were introduced to the Committee. The service was described as being highly specialised and as working in alignment with fundamental documents and regulatory powers. It was highlighted by the Head of Internal Audit that the Corporate Fraud Business Plan was an "umbrella" to the work undertaken by the Corporate Fraud Service.

The resources within the Corporate Fraud Service were outlined to the Committee; the service consisted of a Manager and two full-time Investigators and an Intelligence Administrator. The two Investigators were also authorised by the National Crime Agency as Financial Investigators whose services were described as being highly sought after. The Head of Internal Audit noted that the strength of the Council's service was above average when compared to other district councils.

The Committee was informed that the Corporate Fraud Service had a hotline and web address in place, and further work was taking place to improve the promotion of the service.

In a wider context, the Corporate Fraud Service was confirmed to be aligned with both UK and EU anti-corruption wide strategies and national fraud indicators, which ensured its work was at a high standard. Cross-agency working was also highlighted as a way of sharing resources when investigating larger cases.

The Head of Internal Audit drew the Committee's attention to the key areas that fraud investigations fell into.

The Chairman invited questions from Members to the Head of Internal Audit.

The Chairman noted that the Corporate Fraud Business Plan was very thorough. He queried the inclusion of recruitment as a key area that fraud investigations fell into.

In response, the Corporate Fraud Manager explained to the Committee that identity fraud was an increasing fraud indicator, and in 2017, 500 identities per day had been stolen nationally.

She highlighted the use of falsified identification documents to obtain employment at councils, and discussed a recent training session she had organised for staff members dealing with this work.

The Committee was made aware that policies and procedures in respect of officers accessing sensitive information needed to be backed up with thorough identification checks as part of recruitment processes.

The Corporate Fraud Manager said it was important to be able to identify genuine identification documents for staff personnel to ensure they were genuine before giving access to Council IT systems and that sensitive data was not accessed fraudulently.

The Vice-Chairman wished to thank the Corporate Fraud Service for their hard work.

There being no further questions, the Chairman moved to the recommendation as set out in the report; it was proposed, seconded, and unanimously

RESOLVED:

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

10. Consideration of Items for the Committee's Forward Work Programme

The Audit and Governance Committee reviewed its Forward Work Programme and, in particular, considered and confirmed the items of additional business it wished to receive at its next meeting in July 2018.

11. Exempt/Confidential Items

RESOLVED:

That under Section 100(1)(4) of the Local Government Act 1972 (as amended) the public be 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. Minutes

RESOLVED:

That the Exempt Minutes of the Meeting held on 7 December 2017 were confirmed as a correct record and signed by the Chairman.

13. Internal Audit: Status of Recommendations

The Committee received report **AG 07/18** of the Cabinet Member with responsibility for Resources. This item is recorded as a separate and confidential minute.

The meeting concluded at 8:16pm

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Chairman