

## AUDIT PANEL

4 June 2019

**Commenced:** 2.00 pm

**Terminated:** 2.35 pm

**Present:** Councillors Ricci (Chair), Cartey (Deputy Chair), Fairfoull, J Homer, and J Fitzpatrick

**In Attendance:**

Sandra Stewart	Director of Governance and Pensions
Kathy Roe	Director of Finance
Tom Wilkinson	Assistant Director of Finance
Heather Green	Finance Business Partner
Wendy Poole	Head of Risk Management and Audit Services

**Apologies for Absence:** Councillors Kitchen, Ryan and Dickinson

### 1. DECLARATIONS OF INTEREST

There were no declarations of interest submitted by Members of the Audit Panel.

### 2. MINUTES

The Minutes of the proceedings of the meeting of the Audit Panel held on 12 March 2019 were agreed as a correct record.

### 3. MAZARS ASSURANCE REPORT 2018-19

Consideration was given to a report of the Director of Finance advising that as part of their risk assessment procures Mazars were required to obtain an understanding of management processes in relation to fraud risk assessment, laws and regulations and going concern considerations are part of their annual audit. The report represented the response to the letters and questionnaires received from Mazars for consideration by the Panel ahead of the document being signed by the Chair of the Panel and the Director of Finance.

#### RESOLVED

- (i) That the content of the report and the responses detailed in Appendices 1 and 2 to the report be noted.
- (ii) That the schedules be signed by the Chair of the Audit Panel and the Director of Finance.

### 4. REVIEW OF INTERNAL AUDIT 2018-19

The Director of Finance submitted a report, which reviewed the effectiveness of Internal Audit and measured practices and performance of the Internal Audit function with the standards set out in the Public Sector Internal Audit Standard, which contributed to the overall effectiveness of the system of internal control.

It was reported that a Peer Review of Internal Audit had been undertaken by Blackpool Council and Bolton Council during 12–14 March 2018. An outcome report was presented to the Audit Panel in

May 2018 containing five recommendations and three additional development areas included in the Quality Assurance and Improvement Plan for 2018/19. Reference was made to the progress against the recommendations and improvements summarised in the report.

Internal Audit had three key performance indicators and for 2017/18 all targets were either met or exceeded: 92% of the Plan had been completed, 93% of recommendations had been implemented and there had been 100% customer satisfaction.

It was reported that the Chartered Institute of Public Finance and Accountancy issued a Code of Practice in 2014 entitled "Code of Practice on Managing the Risk of Fraud and Corruption". The self-assessment had been reviewed and the work of Internal Audit in terms of proactive and reactive fraud work provided assurance that the requirements of the code were being adhered to. This in turn provided evidence for the assessment of Internal Audit against the Public Sector Internal Auditing Standards.

In addition, a self-assessment had been undertaken against the checklist published in the report by CIPFA on the role of the Head of Internal Audit as part of the review of the system of internal audit and the Head of Internal Audit was in full compliance with the five principles and the supporting standards. The system of internal control included the role of the Audit Panel which had operated in accordance with best practice and guidance from CIPFA for 2018/19.

The report concluded that the Peer Review conducted in March 2018 and the self-assessment undertaken in April 2019 confirmed that Internal Audit conformed to the requirements of the Public Sector Internal Audit Standards, as demonstrated in Appendix 2 to the report.

Internal Audit helped the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The positive comments received from the Peer Review, together with the positive comments from Senior Management Teams / Executive Members, demonstrated that the Council had an adequate and effective Internal Audit function, which contributed to the overall effectiveness of the system of internal control.

## **RESOLVED**

**That the report be noted.**

## **5. CORPORATE RISK REGISTER UPDATE**

The Director of Finance presented the revised and updated Corporate Risk Register to ensure that the risks were recorded against the correct Director and presented an up to date view of the corporate risks facing the Council. The revised format detailed:

- Corporate Plan Theme;
- Risk Number;
- Risk Description;
- Evaluation of Controls;
- Impact Score;
- Likelihood Score;
- Risk Rating (Impact / Likelihood);
- Risk Owner (Director); and
- Responsible Assistant Director / Service Unit Manager.

In terms of development work, the Panel heard that a detailed review of the risk management process was being undertaken to compare processes with best practice including the revised ISO 3100 (2018) for Risk Management, practices across other local authorities and the Tameside and Glossop Clinical Commissioning Group.

The Corporate Risk Register would be further reviewed to ensure that the risks link to both the themes and priorities in the Corporate Plan.

## **RESOLVED**

- (i) **That the Corporate Risk Register attached at Appendix 1 to the report be approved.**
- (ii) **That the development work outlined in the report be noted.**

## **6. RISK MANAGEMENT AND AUDIT SERVICES ANNUAL REPORT 2018-19**

The Head of Risk Management and Audit Services submitted a report, which summarised the work performed by the Service Unit and provided assurances as to the adequacy of the Council's system of internal control.

The key achievements of the service unit for 2018/19 were highlighted and included:-

- The Internal Audit function was judged to be compliant with the Public Sector Internal Audit Standards following an External Peer Review in March 2018, and the recommendations from the review had been implemented enhancing the service further. Furthermore, the self-assessment completed for 2018/19 against the updated standard reaffirmed full compliance.
- The implementation rate for audit recommendations was 93%.
- Customer feedback was very positive with continued high levels of satisfaction demonstrated on customer questionnaires.
- Annual reports, plans and regular progress reports presented to Members via the Audit Panel and the Greater Manchester Pension Fund Local Board.
- The Annual Governance Statement was produced in accordance with best practice and agreed timescales and no adverse comments were received when the External Auditors (Grant Thornton) reviewed it.
- The National Anti-Fraud Network (NAFN) Data and Intelligence Services introduced the National Database for Taxi Licence Refusals and Revocations to improve public safety.
- Twenty six fraud cases were investigated during the year and 18 cases were closed.
- Following an inspection in November 2018, NAFN received an excellent inspection report from the Investigatory Powers Commissioners Office and for the second year, no recommendations were received.
- Progress towards compliance with GDPR and the Data Protection Act 2018 were ongoing despite limited resources being available.
- Cashable savings of approximately £105,000 had been identified as a result of fraud related investigations.

It was explained that the report presented to the Audit Panel in May 2018 provided an overview of the work planned for 2018/19. The plan, as reported during the year, had been revised to ensure that it was aligned to changes in service priorities, risks, directorate structures and resources available.

The full year position of the audit plan by Directorate / Service Area was detailed, which displayed the approved and revised plan for 2018/19, actual days as at 31 March 2019 and the percentage completed. In terms of the overall plan 1,669 actual days were delivered against a revised plan of 1,654.

Examples of the audit work undertaken in each directorate and a summary of the audit opinions issued in relation to system based audit work and also schools for 2018/19, compared to 2017/18 and 2016/17, was provided.

With regard to anti-fraud work, 26 cases had been investigated during the period April 2018 to March 2019 and a table detailing the investigations by fraud type, value, the amount recovered to date and potential annual savings was provided. Fourteen of the cases involved frauds perpetrated against the Council by claimants or third parties. Several of the cases were still being investigated or prepared for prosecution therefore the value of the fraud could change as the case progresses.

In relation to the National Fraud Initiative 2018 data matching exercise, it was reported that the majority of the investigations had been finalised and the results were summarised.

The report further detailed the following:-

- National Anti-Fraud Network;
- Risk Management and Insurance;
- Performance indicators;
- Public Sector Internal Audit Standards;
- Quality Assurance and Improvement Programme;
- Independence of Internal Audit; and
- Audit opinion based on results of 2017/18 activity.

The report concluded that reasonable assurance should be taken as arrangements to secure governance, risk management and internal control were suitably designed and effectively applied. It was accepted that the gross risk for the Council had increased in recent years (due to reduced capacity, whilst still having to deliver a significant change programme to meet financial challenges). Controls were in place to mitigate these risks and where improvements had been highlighted, managers had agreed to implement the suggested recommendations. This would aid the management of risk and support the overall control environment.

## **RESOLVED**

**That the report be noted.**

## **7. ANNUAL GOVERNANCE REPORT**

The Director of Finance presented the Governance Report comprising of three elements as follows:

1. The Draft Annual Review against the Code of Corporate Governance for 2018/19;
2. The Draft Annual Governance Statement for 2018/19;
3. The Draft Code of Corporate Governance for 2019/21.

The Annual Review against the Code of Corporate Governance had been completed assessing the Council's position against the approved Code of Corporate Governance in order to demonstrate compliance, ongoing development / improvement and to prepare for the compilation of this year's Annual Governance Statement required by the Accounts and Audit Regulations 2015. The draft Annual Review against the Code of Conduct was attached to the report at Appendix 1.

Members were advised that the preparation and publication of an Annual Governance Statement was necessary to meet the requirements set out in Regulation 6 of the Accounts and Audit Regulations 2015. The draft Annual Governance Statement for 2018/19 had been drawn up using guidance contained within Delivering Good Governance in Local Government – framework issued in 2016 and was attached at Appendix 2 to the report. This was a corporate statement covering both Tameside and Greater Manchester Pension Fund based on:

- AGS Self-assessment Checklists and signed Assurance Statements;
- Head of Risk Management and Audit's Annual Report;
- Medium Term Financial Plan / Budget Report;
- Review of System of Internal Audit;

- Annual Audit Letter;
- Role of the Chief Financial Officer;
- Role of the Head of Internal Audit;
- Corporate Plan, and
- Statutory Inspections.

The draft Code of Corporate Governance which complied with the Delivering Good Governance Framework of 2016 was last approved in May 2016 for a three year period and therefore needed to be further approved for 2019 onwards and was attached to the report at Appendix 3.

The Draft Annual Governance Statement would be signed off by the Director of Finance for submission to Mazars in line with the statutory deadline as it needed to accompany the Draft Statement of Accounts. The final version incorporating any updates and comments from Mazars would be presented to the Audit Panel in July for approval following which it would be signed by the Executive Leader and the Chief Executive and presented formally to Mazars.

## **RESOLVED**

- (i) That the Draft Annual Review against the Code of Corporate Governance for 2018/19 be approved.**
- (ii) That the Draft Annual Governance Statement for 2018/19 be approved.**
- (iii) That the Draft Code of Corporate Governance for 2019/20 be approved.**

## **8. RISK MANAGEMENT AND AUDIT SERVICES PLANNED WORK 2019-20**

The Head of Risk Management and Audit Services submitted a report, which presented the planned work for the Risk Management and Audit Service for 2019/20. The report set out in detail the work of Internal Audit and presented the Annual Audit Plan for 2019/20, which was appended to the report. It also highlighted the planned work in relation to Counter Fraud / Investigation Work, the Risk Management and Insurance Team and the National Anti-Fraud Network – Data and Intelligence Services.

The Head of Risk Management and Audit Services explained that the Plan was reviewed and revised each year to take into account service and legislative changes, which could result in large shifts in priorities and culminated in the production of the Annual Audit Plan.

It was reported that Audits were prioritised based on an assessment of risk and allocated a numerical risk score, which equated to either 'High, Medium/High, Medium, Low/Medium or Low'. A range of factors were taken into account, which were outlined. The audit management system used held the entire list of all audits to be undertaken and was used as part of the consultation process with Executive Members, Directors, Assistant Directors, Heads of Service and in some cases Service Unit Managers which was carried out during March.

The Annual Plan for 2019/20 was appended to the report and detailed the following:

- Links to the Corporate Plan;
- Links to the Corporate Risk Register;
- Auditable Area;
- Purpose of the Audit;
- Priority;
- Audit Category; and
- Planned Days for 2019/20.

The report provided a summary of the key audits to be undertaken and the total days required to deliver the plan were 1,515 days which had been balanced to resources available. It was further reported that the Plan would be kept under constant review and regular meetings would be held with

Executive Members and the Senior Management Team to ensure that it reflected the key risks for the Council going forward as it continued to change in shape and size to meet the financial challenges placed upon it.

The report also detailed the following:-

- Internal Audit Staffing
- Internal Audit Reporting Process
- Annual Governance Statement
- Internal Audit Strategy and Charter
- Quality Assurance and Improvement Programme
- Proactive Fraud Work / Irregularity Investigations
- Risk Management and Insurance
- National Anti-Fraud Network - Data and Intelligence Services
- Performance Monitoring
- Member Training

**RESOLVED:**

- (i) **That the draft Internal Audit Plan for 2019/20 be approved and the planned work for the Risk Management and Insurance Team and the National Anti-Fraud Network Team be noted.**
- (ii) **That the Audit Strategy for 2019/20 be approved.**
- (iii) **That the Audit Charter for 2019/20 be approved.**
- (iv) **That the Quality Assurance and Improvement Programme for 2019/20 be approved.**

## **9. ACCOUNTING POLICIES 2018/19**

The Director of Finance submitted a report, which provided the Audit Panel with details of changes made to the accounting policies in respect of the adoption of the new International Financial Reporting Standards (IFRS), specifically IFRS9 (Financial Instruments) and IFRS15 (revenue from contracts with customers). A report to Audit Panel in March 2019 informed members that the review of accounting policies in respect of these two standards was in progress and would be concluded as part of the preparation of the 2018/19 statement of accounts.

Officers had considered the impact of IFRS9 and IFRS15 and assessed their impact as follows:

- Officers had reviewed all financial assets categorised as Financial Instruments against the requirements of IFRS9. Changes were required to the classification of financial assets and the accounting policies as a result of this change to the Code.
- A review of all revenue streams had been undertaken and it had been determined that the adoption of IFRS15 did not have any material impact on the recognition of revenue in the Council's accounts. No changes to the accounting policies were required as a result.

Reference was made to Appendix 1 to the report where the amendments to the accounting policies in section four were highlighted.

**RESOLVED**

**That the amendments to section 4 of the accounting policies detailed in Appendix 1 to the report be approved.**

## **10. 2018/19 DRAFT STATEMENT OF ACCOUNTS**

Consideration was given to a report of the Director of Finance presenting the draft Statement of Accounts for 2018/19. The draft accounts were subject to audit during June and July with the audit due for completion and sign off before 31 July 2019.

The key messages included that the Comprehensive Income and Expenditure Statement reported an overall deficit for the year of £71,007k. This deficit was for accounting purposes only and included a number of non-cash items where were not funded from the Council's resources. The revenue outturn position reported to members in June 2019 was an overall underspend on the revenue budget for 2018/19 of £26k.

Reference was made to the Movement in Reserves Statement summarising the movements on the different reserves held by the Council. The level of earmarked reserves held by the Council had reduced during 2018/19 due to the planned use of reserves to fund capital expenditure and to fund investment in Children's Social Care.

The overall net assets of the Council reported on the Balance Sheet had reduced significantly during the year in part due to the planned reduction in usable reserves, but also reflected the increase in the actuarial valuation of the Council's Local Government Pension Scheme Liabilities.

In terms of the Collection Fund, the 2018/19 outturn position was better than originally forecast due to income from Business Rates exceeding initial forecasts, and the level of provision required for non-collection of Council Tax and appeals against Business Rates were both lower than originally anticipated. The cumulative deficit on Business Rates would be funded from the NNDR deficit reserve in 2019/20. The cumulative surplus on Council Tax would be transferred to earmarked reserves in 2019/20, and the Medium Term Financial Plan assumed that this surplus would be used to support the budget over the next five years.

**RESOLVED**

**That the draft Statement of Accounts 2018/19 and the timescales for completion of the audit be noted.**

**CHAIR**