



AUDIT COMMITTEE

DATE: Thursday, 27 September 2018
TIME: 7.30 pm
VENUE: Council Chamber, Council Offices,
Thorpe Road, Weeley, CO16 9AJ

MEMBERSHIP:

Councillor Coley (Chairman)	Councillor Hones
Councillor Poonian (Vice-Chairman)	Councillor Scott
Councillor Alexander	Councillor Yallop
Councillor Bray	

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Meeting papers can be provided, on request, in large print, in Braille, or on disc, tape, or in other languages.

For further details and general enquiries about this meeting, contact Ian Ford on 01255 686584.

DATE OF PUBLICATION: Wednesday, 19 September, 2018

AGENDA

1 Apologies for Absence and Substitutions

The Committee is asked to note any apologies for absence and substitutions received from Members.

2 Minutes of the Last Meeting (Pages 1 - 8)

To confirm and sign as a correct record, the minutes of the last meeting of the Committee, held on 26 July 2018.

3 Declarations of Interest

Councillors are invited to declare any Disclosable Pecuniary Interests or Personal Interest, and the nature of it, in relation to any item on the agenda.

4 Questions on Notice pursuant to Council Procedure Rule 37

Subject to providing two working days' notice, a Member of the Committee may ask the Chairman of the Committee a question on any matter in relation to which the Council has powers or duties which affect the Tendring District **and** which falls within the terms of reference of the Committee.

5 Report of the Audit and Governance Manager - A.1 - Periodic Report on Internal Audit - July - August 2018 and Updated Internal Audit Charter (Pages 9 - 28)

To provide the Committee with a periodic report on the Internal Audit function for the period July – August 2018 and to propose an updated Internal Audit Charter to be reviewed and approved by the Committee.

6 Report of the Deputy Chief Executive (Corporate Resources) - A.2 - External Audit's Annual Audit Letter for the year ended 31 March 2018 (Pages 29 - 56)

To present to the Committee the External Auditor's Annual Audit Letter for the year ended 31 March 2018.

7 Report of the Deputy Chief Executive (Corporate Services) - A.3 - Table of Outstanding Issues (Pages 57 - 64)

An update will be given on the progress against outstanding actions identified by the Committee.

8 Exclusion of Press and Public

The Committee is asked to consider the following resolution:

“That under Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting during consideration of Agenda Item 9 on the grounds that it involves the likely disclosure of exempt information as defined in the relevant paragraph(s) of Part 1 of Schedule 12A, as amended, of the Act.”

9 **Report of Deputy Chief Executive - B.1 - Risk Based Verification Policy (Pages 65 - 76)**

To seek the necessary annual approval of the Council's Risk Based Verification Policy.

Date of the Next Scheduled Meeting

The next scheduled meeting of the Audit Committee is to be held in the Council Chamber, Council Offices, Thorpe Road, Weeley, CO16 9AJ at 7.30 pm on Thursday, 24 January 2019.

Information for Visitors

FIRE EVACUATION PROCEDURE

There is no alarm test scheduled for this meeting. In the event of an alarm sounding, please calmly make your way out of any of the fire exits in the hall and follow the exit signs out of the building.

Please heed the instructions given by any member of staff and they will assist you in leaving the building and direct you to the assembly point.

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Your calmness and assistance is greatly appreciated.

**MINUTES OF THE MEETING OF THE AUDIT COMMITTEE,
HELD ON THURSDAY, 26TH JULY, 2018 AT 7.30 PM
IN THE ESSEX HALL, TOWN HALL, CLACTON-ON-SEA, CO15 1SE**

Present:	Councillors Coley (Chairman), Poonian (Vice-Chair), Alexander, Bray and Hones
Also in Attendance:	Chris Hewitt (Audit Manager – Ernest & Young)
In Attendance:	Richard Barrett (Head of Finance, Revenues and Benefits Services), Craig Clawson (Acting Audit and Governance Manager), Clare Lewis (Fraud and Risk Manager) and Debbie Bunce (Legal and Governance Administration Officer)

36. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

There were no apologies for absence received on this occasion.

37. MINUTES OF THE LAST MEETING

The minutes of the meeting of the Committee held on 22 March 2018 were approved as a correct record and signed by the Vice-Chairman as the Chairman had not been present at the last meeting.

38. DECLARATIONS OF INTEREST

There were none.

39. QUESTIONS ON NOTICE PURSUANT TO COUNCIL PROCEDURE RULE 37

There were none.

40. REPORT OF THE ACTING AUDIT AND GOVERNANCE MANAGER - A.1 - REPORT ON INTERNAL AUDIT - MARCH 2018 TO JUNE 2018 AND THE ANNUAL REPORT OF THE ACTING AUDIT AND GOVERNANCE MANAGER

REPORT ON INTERNAL AUDIT FOR MARCH TO JUNE 2018 AND INTERNAL AUDIT PLAN PROGRESS 2017/18

The Council's Acting Audit and Governance Manager (Craig Clawson) provided a periodic report on the Internal Audit function for the period of March to June 2018.

The Acting Audit and Governance Manager informed the Committee that 92% of the 2017/18 Internal Audit Plan had been completed as at 31 March 2018 and 99% by 30 June 2018. Fifteen audits had been completed in the quarter of which thirteen had been given Adequate Assurance. One audit had been rated Substantial Assurance and one audit had been rated Improvement Required. No audits had been rated Significant Improvement Required.

The Acting Audit and Governance Manager also informed the Committee of the current position in relation to:

- (i) Quality Assurance;
- (ii) Health and Safety audit;
- (iii) Section 106 update; and
- (iv) Management response to Internal Audit Findings.

OPINION OF THE ACTING AUDIT AND GOVERNANCE MANAGER

The Committee was reminded that as set out in the Public Sector Internal Audit Standards (PSIAS) there was a requirement under PSIAS 2450 that the Chief Audit Executive must provide an annual report to the Audit Committee, timed to support the Annual Governance Statement and that this must include:

- *an annual internal audit opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (i.e. the control environment);*
- *a summary of the audit work from which the opinion is derived (including reliance placed on work by other assurance bodies); and*
- *a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme.*

It was reported that the Internal Audit function undertook a risk based programme of audits each year in order to provide the Council and its Audit Committee with assurance on the adequacy of its system of internal control, governance and risk management arrangements.

Members recalled that a qualified opinion had been provided in 2016/17 based on a number of significant issues being identified within some of the core activity areas of the Council. However, the Acting Audit and Governance Manager was pleased to report that based on the work completed in 2017/18, significant work had been undertaken to ensure that improvement action had been implemented in all of the areas where significant exposure to risk had been reported. He had therefore given an unqualified opinion of Adequate Assurance.

The corrective action taken by Officers with regard to the issues raised by Internal Audit had aided the improvement / maintenance of the control and governance framework. Robust mechanisms were now in place to monitor progress of corrective action, with follow up audits scheduled as necessary.

It was reported that Internal Audit had been working with services on a consultancy basis to support the implementation of new processes and to ensure that all relevant employees had the appropriate training to competently carry out their role. Procurement, Risk Management and Health and Safety were the three areas where this type of work had been undertaken.

The Committee was informed that in 2017/18, only two audits had received an overall audit opinion of "Improvement Required" where significant issues had been identified. Those audits were Walton-on-the-Naze Lifestyles and Health and Safety.

As Health and Safety issues had already been reported above, the Acting Audit and Governance Manager now reported on the high priority issues and mitigating actions for Walton on the Naze Lifestyles in respect of the following matters:-

- (i) Card Payments – PCI Compliance;
- (ii) Unauthorised Refunds; and
- (iii) Inadequate record of Refunds.

UPDATE ON OTHER MATTERS

The Acting Audit and Governance Manager also gave an update to the Committee in respect of:-

- a) Internal Audit Plan Progress 2018/19;
- b) External Quality assessment Update; and
- c) Internal Audit Charter.

The Chairman requested the Acting Audit and Governance Manager to provide a glossary of terms at the beginning of each report in future.

Following discussion and questions by Members, it was:

RESOLVED that the contents of the report be noted.

41. REPORT OF THE DEPUTY CHIEF EXECUTIVE - A.2 - EXTERNAL AUDITOR'S AUDIT RESULTS REPORT 2017/18

The Committee had before them a report (A.2) which had presented the following:

- The External Auditor's Audit Results Report for the year ending 31 March 2018, and Letter of Representation for Members' consideration and approval in order to enable a final opinion on the accounts and value for money arrangements to be formally issued by the External Auditor;
- The Statement of Accounts 2017/18 for Members' consideration and approval for publication by the end of July 2018; and
- A revised Annual Governance Statement 2017/18 for Members' approval.

Ernest and Young's Audit Manager (Chris Hewitt) went through various sections of the report and answered questions by Members.

The Council's Head of Finance, Revenues and Benefits Services also responded to questions raised by Members.

Following discussion, it was **RESOLVED**:

1. That in respect of the Audit Results Report for the year ended 31 March 2018, the Audit Committee:
 - (a) notes the contents of the report including the adjustments to the Statement of Accounts 2017/18 as set out on page 19 of that report;

- (b) subject to (a) above, approves the management representation letter set out as Appendix B to the External Auditors Audit Results Report 2017/18;
 - (c) subject to (b) above, authorises the Head of Finance, Revenues and Benefits and the Audit Committee Chairman or Vice-Chairman to sign the management representation letter for forwarding to the External Auditor;
 - (d) subject to (b) and (c) above, approves for publication the audited Statement of Accounts for 2017/18, amended for the adjusted items identified; and
 - (e) approves a delegation to the Head of Finance, Revenues and Benefits in consultation with the Chairman or Vice-Chairman of the Audit Committee to make amendments to the management representation letter for forwarding onto the External Auditor and/or Statement of Accounts 2017/18 before publication, if further changes are recommended by the External Auditor following the completion of the outstanding areas of their work.
2. That in respect of the Council's Annual Governance Statement 2017/18, the Audit Committee:
- (a) approves the revised Annual Governance Statement set out in Appendix A; and
 - (b) authorises, subject to 2(a) above, the Chief Executive and Leader of the Council to sign the Annual Governance Statement set out in Appendix A.

42. REPORT OF THE DEPUTY CHIEF EXECUTIVE - A.3 - CORPORATE RISK UPDATE

The Fraud and Risk Manager (Clare Lewis) presented to the Committee a report on the updated Corporate Risk Register (item A.3).

It was reported that, within the period under review, one new risk had been added to the register, no risks had been removed, two risk scores had been amended and there were no items that were currently under review. In addition six risks had been amended.

A new risk had been identified in respect of 1d Ineffective Cyber Security Physical and Application (software) based protection management.

Residual Risk Scores had been amended in respect of:-

- (1) 2d Building Council Homes; and
- (2) 2h Essex Family / Family Solutions.

Risks had been amended in respect of –

- (1) 1a Failure to effectively manage assets;
- (2) 1b Catastrophic IT Network Failure
- (3) 1c Ineffective Communication / Management of Information;
- (4) 2d Building Council Homes;
- (5) 2h Essex Family / Family Solutions; and
- (6) 5a Financial Strategy.

It was reported that during the year a review had been carried out by the Council's Internal Audit Team relating to Risk Management. The following table set out the recommendations identified and the current position against each of those actions:

Agreed Action	Current Position
<p>Management Team to promote the importance of operational risk management within the organisation and ensure that Senior Managers implement a process for identifying and mitigating risks in coordination with the Corporate Fraud and Risk Manager.</p> <p>One to one meetings will continue to take place between Senior Managers and the Corporate Fraud and Risk Manager to identify and record key operational risks within their service areas. Support to be provided by Internal Audit if required.</p>	<p>Management Team are currently working with the Fraud and Risk Manager to effectively promote the importance of operational risk management within the Council. The Corporate Fraud and Risk Manager will be attending Management Team meetings on a quarterly basis and provide monthly updates.</p> <p>One to one meetings have started to be carried out with senior managers and reviews of the Council's departmental risk registers are being undertaken.</p> <p>Any gaps identified will be included in the next corporate risk register update.</p> <p>Update to be provided at the January 2019 meeting of the Committee.</p>
<p>Once all departmental risk registers are implemented, the Corporate Fraud and Risk Manager is to embed a quality control process for monitoring business risks and verifying the recorded mitigating controls. This should involve process walkthrough's, reviews of supporting documentation and assessments of target dates / resources required to implement controls</p>	<p>The Corporate Fraud and Risk Manager have arranged one to one meetings with senior managers to discuss business risks, once identified the findings will be reviewed on a more regular basis.</p> <p>Update to be provided at the January 2019 meeting of the Committee.</p>

The Committee was informed that although no changes had been identified as being required at this time, the Risk Management Framework was included at Appendix A to the report for information purposes only.

After discussion, the Committee requested that Officers review a number of risks to explore whether the following should be treated as separate risks within the register given their potential impact on the Council:

- The delivery of the Waste and Recycling Service given recent events elsewhere in the country and the failure of large contractors nationally.
- The delivery of the Planning Service as loss of key staff could contribute towards the failure to comply with legislative requirements.
- Emergency Planning arrangements in respect of flooding and the potential for fraud to be committed against the Council if a large scale event occurred.

After consideration of this item it was **RESOLVED** that the contents of the updates provided to the current Risk Register be noted and that Officers review the items identified above before the risk register is reported to the Committee again in January 2019.

43. REPORT OF THE DEPUTY CHIEF EXECUTIVE - A.4 - ANTI-FRAUD AND CORRUPTION STRATEGY

The Fraud and Risk Manager (Clare Lewis) presented to the Committee an updated Anti-Fraud and Corruption Strategy (item A.4).

The Committee was informed that the Council's Fraud and Corruption Strategy had been last updated in 2012. Following various changes, including the recent establishment of a dedicated Corporate Fraud Team within the Council, significant changes to the existing Strategy were now required.

Therefore an updated Anti-Fraud and Corruption Strategy was before the Committee (as an appendix to item A.4 of the Report of the Deputy Chief Executive (Corporate Services)) which incorporated the various elements of CIPFA's code of practice on managing the risk of fraud and corruption which had previously been adopted by the Committee at its meeting held on 22 March 2018.

It was reported that, subject to the Committee's approval, the Strategy would be circulated to various stakeholders as part of a consultation process before final recommendations were presented to the Committee later in the year.

The Committee recommended a number of amendments to be included before the document was circulated as part of the consultation process.

It was **RESOLVED** that the updated Anti-Fraud and Corruption Strategy be approved for consultation with relevant stakeholders.

44. REPORT OF THE DEPUTY CHIEF EXECUTIVE - A.5 - TABLE OF OUTSTANDING ISSUES

There was submitted a report by the Council's Deputy Chief Executive (Corporate Services) (A.5) which presented to Members the progress against outstanding actions identified by the Committee.

It was reported that the Table of Outstanding Issues had been reviewed and updated since it was last considered by the Committee at its meeting held on 22 March 2018.

It was further reported that there were no significant issues to bring to the attention of the Committee, with updates provided against individual items, as set out in Appendix A to item A.5 of the Report of the Deputy Chief Executive (Corporate Services), or elsewhere on the agenda where appropriate.

In addition, the Committee was reminded that following their audit work in respect of the Housing Benefit subsidy claim for 2016/17, the External Auditor had made the following general recommendation, which had been reported to the Committee at its 22 March 2018 meeting:

[The Council to] perform early extended testing in those areas where errors were identified in 2016-17, to ascertain the extent of similar errors arising in 2017-18.

It was reported that the above was an on-going action each year and remained a key element of the day-to-day work of the Revenues and Benefits Service to eliminate errors wherever possible. The outcome from the audit of the 2017/18 Housing subsidy claim would be reported to the Committee later in the year.

It was **RESOLVED** that the Committee notes the progress on the outstanding issues.

The meeting was declared closed at 8.55 pm

Chairman

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Glossary of Abbreviations and Acronyms

AGS	Annual Governance Statement
CHIS	Covert Human Intelligence Sources
CIES	Comprehensive Income and Expenditure Statement
CIPFA	Chartered Institute of Public Finance and Accountancy
EAG	Essex Audit Group
ERCF	Eastern Region Corporate Fraud
EY	Ernst and Young
FRC	Financial Reporting Council
GF	General Fund
HBMS	Housing Benefit Matching Service
HRA	Housing Revenue Account
IAS	International Accounting Standard
IFRS	International Financial Reporting Standard
ISA	International Standard on Auditing
IUC	Interview Under Caution
LGPS	Local Government Pension Scheme
MIRS	Movement in Reserves Statement
MTFF	Medium Term Financial Forecast
NAFN	National Anti-Fraud Network
NAO	National Audit Office
NFI	National Fraud Initiative
PCAW	Public Concern at Work
PCI	Payment Card Industry
PPE	Property, Plant and Equipment
PSAA	Public Sector Audit Appointments
PSIAS	Public Sector Internal Audit Standards
PSN	Public Services Network
PWC	Price Waterhouse Coopers
RBV	Risk Based Verification
RIPA	Regulation of Investigative Powers Act
SOA	Statement of Accounts
SOLACE	Society of Leaders and Chief Executives
TCWG	Those Charged With Governance
VFM	Value for Money
WGA	Whole of Government Accounts

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AUDIT COMMITTEE

27 SEPTEMBER 2018

REPORT OF ACTING AUDIT AND GOVERNANCE MANAGER

A.1 PERIODIC REPORT ON INTERNAL AUDIT – JULY - AUGUST 2018 AND UPDATED INTERNAL AUDIT CHARTER

(Report prepared by Craig Clawson)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To provide a periodic report on the Internal Audit function for the period July – August 2018 and to propose an updated Internal Audit Charter to be reviewed and approved by the Audit Committee

EXECUTIVE SUMMARY

- The Internal Audit Charter had been updated to include some elements of procedural changes now in place and to ensure that all information within the charter is relevant to the current mission / vision of Internal Audit.
- A total of five audits have been completed since the previous update in July 2018. A further nine are still in fieldwork phase and 12 audits have been allocated.
- Four consultative reviews are ongoing; Digital Transformation Programme, Office Transformation Programme, Risk Management and Project Management.

RECOMMENDATION(S)

- (a) The periodic report be considered and noted; and
- (b) The Internal Audit Charter be reviewed and approved.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

Provision of adequate and effective internal audit helps demonstrate the Council's commitment to corporate governance matters.

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

The Internal Audit function is operating within the budget set.

Risk

Review of the functions of the Council by Internal Audit assists in identifying exposure to risk, and its mitigation.

LEGAL

The Council has a statutory responsibility to maintain adequate and effective internal audit.

The Accounts and Audit Regulations 2015 make it a statutory requirement that the Council must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal audit standards and guidance.

OTHER IMPLICATIONS

**Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.
Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.**

Internal Audit activity assists the Council in maintaining a control environment that mitigates the opportunity for crime.

During the course of internal audit work issues regarding equality and diversity, and health inequalities may be identified and included in internal audit reports.

There is no specific effect on any particular ward.

PART 3 – SUPPORTING INFORMATION

BACKGROUND

The Public Sector Internal Audit Standards (PSIAS) require the Acting Audit and Governance Manager to make arrangements for reporting to senior management (Management Board) and to the board (Audit Committee) during the course of the year.

The PSIAS also require that the purpose, authority and responsibility of the Internal Audit activity be formally defined in an Internal Audit Charter, and that the charter be periodically reviewed and presented for approval.

INTERNAL AUDIT PLAN PROGRESS (2018/19)

A total of five audits have been completed since the previous update in July 2018. A further nine are still in fieldwork phase and 12 audits have been allocated. Four of the five audits have received a satisfactory level of assurance, however; one audit (Development Management) has received an overall audit opinion of 'Improvement Required'.

Since the July 2018 meeting of the Committee, one member of the Internal Audit Team has commenced a period of long term sickness absence. The situation will be reviewed on an on-going basis in respect of the impact on the delivery of the annual audit plan.

As there are a number of audits that are continuous or consultative, it is necessary to provide a summary of progress below;

Office Transformation Programme

The Acting Audit and Governance Manager has attended some of the Transformation

Group meetings whereby progress is discussed and issues are highlighted. The main elements discussed are progress / deliverability, building work issues, customer service issues, policy updates and IT related issues. To date, no material issues or delays have been highlighted at the meetings attended.

Digital Transformation Programme

Meetings are usually held between key Officers involved in the programme and a third party company providing a network re-design solution on behalf of TDC. Progress on the network design implementation is provided by the third party. It is too soon to make an assessment on the deliverability of the programme as it is still in its infancy, however; this review will continue to monitor progress, budget spend and deliverability of the programme of works.

Project Management

Internal Audit is working with the Deputy Chief Executive and relevant stakeholders to ensure that robust governance arrangements and procedures are implemented on the back of the Peer Review recommendations on Project management. This is still ongoing.

Payment Card Industry Data Security Standard (PCI DSS)

The previous Internal Audit Progress Report (July 2018) highlighted a significant issue regarding credit / debit card details being printed and retained from the payment terminals within Leisure Centres. The action to move to an alternative supplier to provide consistency across the organisation is in progress. The new terminals and merchant ID's have been ordered and an overall saving of £6852 per year is to be achieved. However, it should be noted that if the Council do not ensure that they are PCI DSS compliant then Lloyds are able to fine us £30 per month per terminal.

Internal Audit has therefore commissioned a full PCI DSS Audit review across TDC which is due to start on 17th September 2018. The company (ITGovernance.co.uk) will assess our processes and network and provide appropriate recommendations. They will ensure that we are fully compliant and provide training to all staff required to take payments over the phone at a later date.

Quality Assurance – The Internal Audit function issues satisfaction surveys for each audit completed. In the period under review 100% of the responses received indicated that the auditee was satisfied with the audit work undertaken.

Outcomes of Internal Audit Work

The standards require the Acting Audit and Governance Manager to report to the Audit Committee on significant risk exposures and control issues. Since the last report five audits have been completed. The Public Sector Internal Audit Standards require the reporting of significant risk exposures and control issues.

Assurance	Colour	Number this Period	Total for 2017/18 Plan	
Substantial		2	2	
Adequate		2	2	
Improvement Required		1	1	
Significant		0	0	

Improvement Required				
No Opinion		0	0	

For the purpose of the colour coding approach, both the substantial and adequate opinions are shown in green as both are within acceptable tolerances.

Significant Issues arising from audits completed in the period under review receiving an 'Improvement Required' opinion and requiring reporting to Committee are: -

Development Management

Retention of Funds by Third Party Company (Income Management)

The planning portal has recently amended the circumstances relating to payments made by applicants and how they are received by Councils. The new arrangements allow the company administering the planning portal to keep the monies paid, take their £20 charge per application and then transfer the funds to the Council in one BACS payment. This creates a risk because customer monies are retained by a third party, if they were to become insolvent the money would be lost and the Council would still have an obligation to honour the application without ever receiving the money. There is also an increased risk of fraud from outside of the Council. This is a national issue as the planning portal is used by the majority of districts and boroughs across the country.

The agreed action is for the service to explore whether the planning portal can revert to the previous process of allowing the payments to be sent directly to the Council and we then pay back the commission owed to the planning portal supplier. If this is not an option then it is recommended that a portal be created in house to allow applications to be processed via our own website.

Update on previous significant issues reported

At the previous Committee there were two significant issues reported. One related to PCI DSS compliance which has been addressed earlier in this report. The second related to a Health and Safety program of works. The action is not due yet, however; the Fraud and Risk Manager has reported that the team are currently working on creating a program of works for the Health and Safety Officer to work to and pro-actively plan ahead.

For reporting purposes, the number of significant findings identified with outstanding actions are listed below;

Status	Number	Comments
Overdue more than 3 months	0	
Overdue less than 3 months	0	
Not yet due	5	

INTERNAL AUDIT CHARTER

The Public Sector Internal Audit Standards require the Internal Audit Charter to be a formal document that: -

- Defines the Internal Audit activity’s mission, purpose, authority and responsibility
- Establishes the Internal Audit activity’s position within the organisation including the nature of the “Chief Audit Executive’s” (Audit and Governance Manager’s) functional reporting relationship with the Board (Audit Committee)
- Authorises access to records, personnel and physical properties relevant to the performance of engagements
- Defines the scope of Internal Audit activities
- Defines the terms “Board” and “Senior Management” for the purpose of Internal Audit activity
- Covers the arrangements for appropriate resourcing
- Defines the role of Internal Audit regarding fraud-related work
- Includes arrangements for avoiding conflicts of interest if Internal Audit undertakes any non-audit activities.

The Internal Audit Charter has been updated to reflect the current working arrangements of the Internal Audit function. The key principles of the charter remain as they were as they are the foundations of all Internal Audit activity; however there have been some changes where areas have been expanded further to explain ways of working and some elements have been removed to provide a leaner audit charter that reflects the current structure of the function.

The aesthetics of the charter has also been updated to provide a consistent design in line with all other Internal Audit Reports. The Internal Audit Charter can be reviewed in Appendix B of this report.

External Quality Assessment (EQA) Update

There is only one issue outstanding from the EQA undertaken by an approved assessor and previously reported in full to the Committee. It is due to be completed by December 2018. This relates to a consistent approach to risk management to be followed by all departments as well as Internal Audit. This is being addressed as part of the Risk Management review within the annual audit plan to develop a risk framework that all service areas and Internal Audit can use as a consistent basis for assessing risk.

BACKGROUND PAPERS FOR THE DECISION

Audit Report

APPENDICES

Appendix A – 2018/19 Internal Audit Plan Progress Report
 Appendix B – Internal Audit Charter

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Tendring District Council Internal Audit			
2018/19 Internal Audit Plan Progress Report			
Audit Title	Status Sept 2018	Audit Type	Audit Opinion
2017/18 Carry Forward			
IT Support	Complete	Full review of IT Support Services. Assess security and data integrity controls and assess performance indicators	Adequate Assurance
Key Systems / Key Financial Risk Areas			
Procurement	Fieldwork	Continuous Auditing Approach. Five days allocated per quarter of the annual plan	To be confirmed
Housing Benefits	Allocated	Different Techniques involved. Techniques used; self-assessment, Root cause analysis / Data Analytics and Assurance Mapping exercises until Universal Credit is adopted.	To be confirmed
Business Rates	Allocated	Different Techniques involved. To include self-assessment, Root cause analysis / Data Analytics and Assurance Mapping exercises. Analysis of Legislation changes and pooling arrangements may also be required	To be confirmed
Main Accounting System	Allocated	Data Analytics is the main audit technique used within this audit	To be confirmed
Corporate Governance	Complete	Assurance Mapping and Self-Assessments to be used within this audit. Interviews with Senior Management required to ascertain the culture of the organisation	Substantial Assurance
Banking	Allocated	Mainly Self-Assessment with some testing required	To be confirmed
Council Tax	Allocated	Different Techniques involved. To include self-assessment, Root cause analysis / Data Analytics and Assurance Mapping exercises.	To be confirmed

Payroll	Allocated	Data Analytics is the main audit technique used within this audit	To be confirmed
Accounts Payable	Allocated	Data Analytics is the main audit technique used within this audit	To be confirmed
Treasury Management	Allocated	Assurance Mapping, Self-Assessments and Data Analytics are the main techniques used	To be confirmed
Housing Rents	Allocated	Root cause analysis / Data Analytics	To be confirmed
Cash Receipting	Allocated	Root cause analysis / Data Analytics	To be confirmed
Accounts Receivable	Allocated	Data Analytics is the main audit technique used within this audit	To be confirmed
Contract Management	<i>Fieldwork</i>	Review of different contracts across the council assessing how they are managed and identifying where best practice can be shared	To be confirmed
Financial Resilience	Allocated	Balancing the Council's budget and forecasting a medium to long plan is still one of the biggest risks the Council faces	To be confirmed

Other Services / Systems			
Housing Repairs and Maintenance	Unallocated	Annual review of individual / multiple elements of HR & M	To be confirmed
Risk Management	Unallocated	Required annually under PSIAS and Cipfa guidance	To be confirmed
Corporate Fraud Team	Complete	Deferred from 2017/18. Full review of proposed governance arrangements introduced.	Adequate Assurance
Facilities Management	<i>Fieldwork</i>	Self-Assessment and Quality Control Review	To be confirmed
Insurance	Complete	Self-Assessment Questionnaire Exercise	Substantial Assurance

Inventory / Stock Control	<i>Fieldwork</i>	Common theme across the Council that continues to raise concerns. Audit expected to identify all areas where stock control is required and provide a consistent approach for all areas	To be confirmed
Transformation Programme	Acting Audit and Governance Manager is now of the transformation delivery board	Review of governance arrangements, decision making, cost / benefit analysis and benefit realisation	Consultative Review
Project Management	Fieldwork	Review of different projects across the council assessing how they are managed and identifying where best practice can be shared and guidance provided for future projects	Consultative Review
Leisure Centres	<i>Fieldwork</i>	Self – Assessment Exercise to ensure adequate governance and financial control arrangements are in place	To be confirmed
Housing Allocations – Follow Up	<i>Fieldwork</i>	Full review of Housing Allocations Service	To be confirmed
Land Charges	<i>Fieldwork</i>	Self – Assessment and Audit Testing	To be confirmed
Development Management	Complete	Planning Processes from Application process, Income Management Process through to the Appeals Process Significant issue identified relates to Income Management	Improvement Required
Health & Safety	Unallocated	Spot checks, Compliance reviews and Self - Assessments	To be confirmed
Emerging Key Projects	Unallocated	Provision for emerging projects. Considered as a contingency provision to be allocated during year to specific tasks as appropriate	To be confirmed

Computer Audit			
Digital Transformation Programme	Acting Audit and Governance Manager is now part of the digital transformation delivery board	IT continues to be one of the biggest risk areas to all organisations. Governance arrangements and project delivery to be within scope	Consultative Review
IT Governance	Unallocated	PSIAS expectation that this will be covered each year.	To be confirmed
IT Assets	<i>Fieldwork</i>	Includes detailed testing to ensure that all IT Assets are accounted for. Additional security arrangements required from standard stock control	To be confirmed
Business Continuity & Emergency Planning	<i>Fieldwork</i>	Review of current arrangements including how financial capacity is built in to emergency planning and business continuity procedures	To be confirmed

Status Key

Unallocated	Audit in Audit Plan, but no work undertaken yet
Allocated	Audit is being scoped / has been scoped and awaiting commencement
Fieldwork	Audit in progress
Draft Report	Audit fieldwork complete, but Final Report not yet issued
Completed	Final Report issued and audit results reported to Audit Committee
Deferred	Audit was in Audit Plan, but will now be undertaken in a later year. Deferred audits agreed by Audit Committee
Delayed	Valid request from function being audited for audit to be undertaken later than proposed

INTERNAL AUDIT CHARTER – SEPTEMBER 2018

1. INTRODUCTION

The CIPFA Public Sector Internal Audit Standards (PSIAS) require the Chief Audit Executive to produce an Internal Audit Charter that is consistent with the Standards, and the Definition of Internal Auditing and the Code of Ethics contained within the Standards.

The Internal Audit Charter defines the purpose, authority and responsibility of the Internal Audit function within the Council.

The Standards require that the Charter be subject to periodic review, and be formally approved by the Audit Committee. These reviews are to be undertaken by the Chief Audit Executive and reported to the Committee at least annually.

2. DEFINITION OF ROLES

The Standards use the terms Board, Senior Management and Chief Audit Executive.

In this Charter, and with regard to compliance with the PSIAS, the following definitions apply;

PSIAS	TDC
Board	Audit Committee
Senior Management	Management Team
Chief Audit Executive	Audit and Governance Manager

Throughout this document the titles used by this Council have been used for clarity purposes.

3. REQUIREMENT FOR INTERNAL AUDIT

The Accounts and Audit Regulations 2015 requires that **“a relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”**.

Tendring District Council is a relevant body, as defined by the Regulations.

Compliance with the Public Sector Internal Audit Standards fulfils the requirements set in the Regulations.

The role of the Internal Audit function includes the discharge of statutory requirements relating to internal audit.

5. COMPLIANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS)

The PSIAS, the definition of Internal Auditing and the Code of Ethics within the standards, are mandatory. Arrangements will be made to ensure that the Internal Audit function operates in accordance with the PSIAS, and that the core principles for the professional practice of Internal Auditing as detailed in the standards are present and operating effectively. In the event that circumstances prevent full compliance, appropriate equivalent safeguards or measures will be adopted as permitted by the standards, and the Audit Committee made aware.

The Audit and Governance Manager is responsible for maintaining an up to date Internal Audit Manual which details the framework adopted to meet the requirements set by the standards.

Internal Auditors will ensure that in undertaking their duties they demonstrate integrity, competence and due professional care and operate in line with the requirements of the standards, and its embedded code of ethics.

The Audit and Governance Manager will make arrangements for compliance / quality reviews to be undertaken, in accordance with the PSIAS requirements, both at individual audit level and for the service as a whole and for the results of service reviews to be reported to the Audit Committee, together with any actions necessary to achieve full compliance.

The regular reports provided by the Audit and Governance Manager will highlight areas of non-compliance and associated actions.

6. MISSION, PURPOSE, RESPONSIBILITY, OBJECTIVITY AND SCOPE OF INTERNAL AUDIT

The mission of the Internal Audit function is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

The purpose of the Internal Audit function is to: -

- provide independent, objective assurance to the Council on its operations and control environment
- deliver an effective, cost effective, proactive and innovative function that meets the needs of the Council, and is aligned with its strategies, objectives and risks.
- add value by assisting management to improve the delivery of Council objectives and operations through the evaluating and challenging the effectiveness of risk management, control and governance processes
- add value by assisting management to improve the delivery of Council objectives and operations by the provision of consultancy and best practice advice.

The key responsibilities and objectives for the Internal Audit function are to: -

- provide an Internal Audit services that discharges the Council's statutory responsibilities with regard to internal audit
- provide a service that is compliant with the requirements of the PSIAS
- contribute to the Council's governance, risk and assurance arrangements
- enable the Audit and Governance Manager to provide an annual opinion on the overall adequacy and effectiveness of the Council's control environment

- communicate effectively on risk and control issues, identified or that the Council might be exposed to, providing insightful, proactive and future-focused solutions where appropriate, that promote improvement to the Council's risk and control frameworks.
- deliver a quality service that strives to continually improve

The scope of Internal Audit includes: -

- undertaking independent risk based reviews to provide assurance on the effectiveness, efficiency and legality of management and service delivery arrangements
- undertake reviews using a range of audit techniques that are innovative and efficient and provide detailed insight on processes and procedures within a service area.
- undertaking independent ad hoc reviews as requested by management
- undertaking / participating in investigations including those in relation to potential fraud, corruption, bribery or irregularity
- undertaking proactive anti-fraud work examining emerging fraud risks and potential exposures identified
- providing consultancy and advice on major projects, and ad hoc advice upon demand
- dissemination to the organisation of best practice

The scope of the Internal Audit function's remit includes the Council's entire control environment, not just financial controls – this includes assurance and monitoring mechanisms, including risk management arrangements. It also extends to any services provided through partnership arrangements, or by external providers.

Where the Council works in partnership with other organisations, the Internal Audit function will provide a service as agreed between the partner organisations. The nature of assurances to be provided will be consistent with the requirements of the Standards, the governance arrangements applicable to the partnership, and the terms of engagement for the assignments undertaken.

The Internal Audit function does not currently provide a service to any third party organisation, but may do so in the future if appropriate to do so. The nature of assurances to be provided in such circumstances will be consistent with the requirements of the Standards, the rules and regulations governing the organisation in question, and the terms of engagement contractually entered into.

The Audit and Governance Manager will ensure that the planned Internal Audit work in any financial year provides sufficient coverage of the key financial, and other, systems to enable an opinion on the effectiveness of the Council's control environment to be formed. In lieu of work undertaken directly by the Internal Audit function, the Audit and Governance Manager may place reliance on assurances provided by other assurance providers where he deems it appropriate to do so.

Consideration will be taken, in determining where Internal Audit activity should be focussed, of the Council's assurance and monitoring mechanism's including risk management arrangements.

The Internal Audit function can provide consultancy and advice to the functions of the Council and its management, usually of a one off and ad hoc nature. It may also be involved in assignments to aid development of new and improvement of existing processes. Mechanisms are in place to maintain independence and divisions of duty.

6. ORGANISATIONAL INDEPENDENCE OF INTERNAL AUDIT

The Internal Audit function will be independent of the activities that it audits to enable auditors to perform their duties in a manner that facilitates impartial, objective and effective professional judgements and recommendations.

A mechanism will be maintained that enables conflicts of interest, including previous employment responsibilities and any one off non audit duties undertaken, to be identified and recorded. Internal Auditors will not be allowed to undertake assignments / elements of assignments where a conflict of interest has been identified or to audit records where impartiality cannot be demonstrated.

The Audit and Governance Manager has some other operational responsibilities of a governance nature. Arrangements will be maintained to ensure that the post holder is not involved in audits on such areas in either an operational or supervisory role to maintain independence.

The Audit and Governance Manager will report at least annually to the Audit Committee on the organisational independence of the Internal Audit function.

7. ACCOUNTABILITY, REPORTING LINES AND RELATIONSHIPS

The Internal Audit function is located within the Corporate Services Department. The Audit and Governance Manager's line manager is the Head of Finance, Revenues and Benefits Services (S151 Officer). The Audit and Governance Manager has a right of direct access to the Deputy Chief Executive as corporate directorate head. In addition the Audit and Governance Manager has a right of direct access to the Management Team, the Chief Executive and Corporate Directors / Head of Department individually, and Members.

The Audit and Governance Manager has the right to meet privately with the Audit Committee, when necessary.

The arrangements for working relationships with elected members shall follow the requirements of the Protocol on Member / Officer relations within the Council's Constitution, and codes of conduct.

Following each audit the Audit and Governance Manager will report directly to the relevant Corporate Director / Head of Department providing an assurance ranking based upon the results of the assignment undertaken, with any material issues being drawn to the attention of the Council's s151 officer, other statutory officers or Management Team as appropriate to the circumstance. The results of each audit will be reported to the Audit Committee.

Corporate Directors / Head of Department are responsible for ensuring that appropriate action is taken to resolve issues reported by Internal Audit. The Internal Audit function will have in place mechanisms to obtain assurance that actions have been appropriately implemented, and to report any significant issues arising from this to the Audit Committee.

The Council's Audit Committee has responsibility for receiving and reviewing reports on Internal Audit from the Audit and Governance Manager. Reports will be produced in formats that meet any criteria laid down by the PSIAS.

Internal Audit may be required to provide assurance to external parties, such as grant funding bodies, where so requested. All engagements will be conducted reflecting any requirements set by such bodies, and professional standards.

A dialogue will be maintained with Corporate Directors / Head of Department to ensure that emerging risks, and operational changes, are reflected in the work programme for Internal Audit at the earliest opportunity.

A clear line of communication will be maintained with the Council's external auditors and other review bodies, taking account of the differing roles and responsibilities of each organisation.

8. RESPONSIBILITY OF THE AUDIT COMMITTEE AND ROLE OF STATUTORY OFFICERS WITH REGARDS TO INTERNAL AUDIT

The role of the Audit Committee with regards to Internal Audit is laid out in the Council's Constitution. The role regarding Internal Audit includes:

- Considering the Audit and Governance Manager's Annual Report and opinion.
- Considering reports on the operation of Internal Audit and summaries of specific internal audit reports.
- Considering reports from Internal Audit on significant agreed actions not implemented within a reasonable timescale.

To fulfil this role, and to meet the requirements of the PSIAS, the Committee in considering reports on the operation of Internal Audit will also receive and approve: -

- The Annual Internal Audit Plan
- Internal Audit Plan updates during the year
- The Internal Audit Charter
- Quality assessments on compliance with the PSIAS

The Head of Paid Service (Chief Executive) has responsibility for the discharge of the functions of the Council, and would therefore be advised regarding any issues of a significantly material nature arising during audits. The post holder also has a responsibility regarding the effective discharge of the Internal Audit function.

The s151 Officer (Head of Finance, Revenues and Benefits Services) has responsibility for ensuring that the Audit and Governance Manager provides the Internal Audit service required by the Council, and is advised of any issues of a material nature identified during audits / provided with assurance as appropriate to aid in meeting his statutory obligations.

The Monitoring Officer (Head of Governance and Legal Services) has responsibility for the lawfulness and fairness of decision making, and any issues of this nature identified during audits will be drawn to the post holders attention / assurance provided as appropriate to aid the post holder to meet their statutory obligations.

9. FRAUD AND CORRUPTION

Managing the risk of fraud and corruption lies with management. The Internal Audit function does not have responsibility for the prevention and detection of fraud and corruption. Internal Auditors will be alert in the work undertaken to risks and exposures that could allow fraud or corruption to occur, and

where appropriate will agree and report on control improvements to mitigate such risks and exposures.

The Council's Constitution (Financial Procedure Rules) requires that Corporate Directors / Head of Department report any financial irregularity or suspected irregularity to the designated Head of Internal Audit immediately. The Council's Fraud and Corruption Strategy confirms these arrangements.

Provisions will be made in the Audit plan to enable reactive work to be undertaken as a result of any irregularity reported where he considers it appropriate for the Internal Audit function to undertake, or be involved in, any investigation required.

10. INTERNAL AUDIT RESOURCE REQUIREMENTS

The Public Sector Internal Audit Standards require that Internal Audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan. However the Account and Audit Regulations / PSIAS are not prescriptive regarding the level of resources required.

The level and nature of resources required for each year's plan will be considered as part of the annual audit planning process to ensure that the resources available are deemed sufficient taking account of changes to the audit universe, changes to exposure of the organisation to risk, and developing professional standards.

The resources available will be maintained, both in terms of staffing levels and proficiency, at a level sufficient to deliver the approved plan to an acceptable standard, and to meet the requirements of the PSIAS.

Provision may be made to enable the use of resources from elsewhere within the Council or externally as appropriate to cover any skills gaps related to the audit engagements planned.

Any changes to the functions of the Council, the risks the Council is exposed to, the requirement for ad hoc work, and the development of audit techniques may change the baseline position. The Internal Audit Plan is intended to be flexible and mechanisms exist to update it during each year as required.

If at any time an imbalance between resources available and those required to deliver an effective Internal Audit function arises, then this will be drawn to the attention of the Audit Committee, together with proposed solutions.

11. RIGHT OF ACCESS

The right of access for Internal Audit to records, assets, personnel and premises shall be consistent with the requirements of the Accounts and Audit Regulations. The right of access is also contained in the Council's Constitution.

The right of access shall extend to any resources bought in to supplement the in house team, in undertaking audits.

The Internal Audit Team shall have, for the purposes of internal audit, the right of access to all establishments operated by the Council, all records held by the Council, all assets and personnel. Where the Council enters into partnership arrangements, or outsources functions, the contractual arrangements shall include provision for the right of access by the Council's Internal Auditors to all records and assets that relate to the Council. The Council's Internal Auditors shall have authority to

obtain such information and explanations as are considered necessary to fulfil their internal audit responsibilities.

Internal Auditors will treat information they receive / see in the course of their duties as confidential, only disclosing such information where there is a legal or professional requirement to do so.

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AUDIT COMMITTEE

27 SEPTEMBER 2018

REPORT OF DEPUTY CHIEF EXECUTIVE

A.2 EXTERNAL AUDIT'S ANNUAL AUDIT LETTER FOR THE YEAR ENDED 31 MARCH 2018

(Report prepared by Richard Barrett)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To present to the Committee the External Auditor's Annual Audit Letter for the year ended 31 March 2018.

EXECUTIVE SUMMARY

The Annual Audit Letter for the year ended 31 March 2018 has recently been received from the Council's External Auditors which primarily summarises the outcomes from various audit activities undertaken during the year. The Auditor's key messages are set out on pages 4 and 5 of the attached.

RECOMMENDATIONS

That the Audit Committee considers and notes the contents of the Annual Audit Letter for the year ended 31 March 2018.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

The aim of continuing to be financially stable and well managed and provide good value for money is directly supported through learning and improving through audit and inspection.

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

There are no direct financial implications arising from this report although a small additional fee is expected as highlighted on page 24 of the attached, which will be able to be accommodated within existing budgets.

Risk

Not responding practically and timely to outcomes from audit and inspection may have an impact on the delivery of the Council's priorities, reputation, governance arrangements and overall control environment.

LEGAL

The Accounts and Audit Regulations require that:

- (1) A committee must meet to consider the letter as soon as reasonably practicable;
- (2) following consideration of the letter in accordance with paragraph (1) the authority must—(a) publish (which must include publication on the authority’s website) the audit letter; and (b) make copies available for purchase by any person on payment of such sum as the authority may reasonably require.

OTHER IMPLICATIONS

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.

Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.

This report does not have a direct impact although items could feature in the recommendations and subsequent action plans in future external audit reports. Any actions that may have an impact will be considered and appropriate steps taken to address any issues that may arise.

PART 3 – SUPPORTING INFORMATION

ANNUAL AUDIT LETTER FOR THE YEAR ENDED 31 MARCH 2018

There are a number of different strands of external audit work undertaken during the year such as specific activity in relation to the financial statements and value for money opinion. The outcomes from these activities are reported to the Council separately as they are completed during the year. The Annual Audit Letter is effectively an end of year report for the Council which captures and summarises these outcomes in one document. It is primarily directed to Members but it must also be made available as a public document.

The **Annual Audit Letter** relating to 2017/18 is attached, with no significant concerns raised. Page 15 of the attached highlights general risks associated with financial resilience / sustainability, which are actively being managed within the Council’s long term financial sustainability plan. This action has also been recognised within the Annual Governance Statement and updates will be provided to the Committee over the course of the year, with the first one set out within the Table of Outstanding Issues Report elsewhere on the agenda.

External Audit has highlighted three issues for consideration in the future which are set out on pages 21 and 22 of the attached. Responses to these issues form part of the work that is undertaken to close the accounts and produce the Statement of Accounts for 2018/19 by the required deadlines.

BACKGROUND PAPERS FOR THE DECISION

None

APPENDICES

ATTACHED External Auditor’s Annual Audit Letter for the year ended 31 March 2018

Tendring District Council

Annual Audit Letter for the year
ended 31 March 2018

August 2018

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The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y'.

Building a better
working world

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Focused on your future



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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated 23 February 2017)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



01 Executive Summary



Executive Summary

We are required to issue an annual audit letter to Tendring District Council following completion of our audit procedures for the year ended 31 March 2018. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's:	
▶ Financial statements	Unqualified - the financial statements give a true and fair view of the financial position of the Council as at 31 March 2018 and of its expenditure and income for the year then ended
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources

Page 24

Area of Work	Conclusion
Reports by exception:	
▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	The Council is below the specified audit threshold of £500 million. Therefore, we did not perform any audit procedures on the consolidation pack.



Executive Summary (cont'd)

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 20 July 2018.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 31 July 2018.

In December 2018 we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

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Kevin Suter
Associate Partner
For and on behalf of Ernst & Young LLP



02 Purpose and Responsibilities



Purpose and Responsibilities

The Purpose of this Letter

The purpose of this Annual Audit Letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2017/18 Audit Results Report to the 26 July 2018 Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities of the Appointed Auditor

Our 2017/18 audit work has been undertaken in accordance with the Audit Plan that we issued on 1 March 2018 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

Expressing an opinion:

- ▶ On the 2017/18 financial statements; and
- ▶ On the consistency of other information published with the financial statements.

Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.

▶ Reporting by exception:

- ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
- ▶ Any significant matters that are in the public interest;
- ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
- ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on you Whole of Government Accounts return. The Council is below the specified audit threshold of £500mn. Therefore, we did not perform any audit procedures on the return.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



03

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health. We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 31 July 2018. Our detailed findings were reported to the 26 July 2018 Audit Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
<p>Misstatements due to fraud or error</p> <p>The key risk is that the financial statements as a whole are not free of material misstatements whether caused by fraud or error.</p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>To address the risk, we:</p> <ul style="list-style-type: none"> • Wrote to the Head of Finance, Revenues and Benefits, Chair of the Audit Committee, Head of Internal Audit and Monitoring Officer and reviewed their responses; • Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements; • Reviewed accounting estimates for evidence of management bias; • Evaluated the business rationale for any significant unusual transactions; and • Reviewed capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised. <p>From the audit work undertaken we did not identify any:</p> <ul style="list-style-type: none"> • Material weaknesses in controls or evidence of material management override; • Adjustments outside of the normal course of business from our review of journals. All journals tested have appropriate rationale; • Instances of inappropriate judgements for estimates; • Significant unusual items; or • Evidence that revenue costs had been inappropriately capitalised



Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
<p>Risk of fraud in revenue and expenditure recognition</p> <p>Auditing standards also required us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation.</p> <p>Having assessed the key income and expenditure streams of the Council, we judged that there was material opportunity and incentive for the incorrect classification of revenue spend as capital expenditure.</p>	<p>To address the risk, we:</p> <ul style="list-style-type: none"> • Obtained a breakdown of capital additions in the year and reviewed the descriptions to identify any items that could be revenue in nature; • Amended our sample sizes when testing PPE additions to reflect the existence of this risk; • Agreed samples to source documentation to ensure the capital/revenue split was reasonable; and • Designed journal procedures to identify and review adjustment manual journals that moved amounts from revenue codes to capital codes. <p>From our testing we did not find any evidence that revenue costs had been inappropriately capitalised or that journals had been manipulated.</p>

Other Key Findings	Conclusion
<p>Property, plant and equipment</p> <p>Property, plant and equipment (PPE) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and/or depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end PPE balances held in the balance sheet.</p> <p>As the Council's asset base is significant, and the outputs from the valuer are subject to estimation, there is a higher inherent risk PPE may be under/overstated or the associated accounting entries incorrectly posted. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying estimates. Therefore it is appropriate to recognise property valuation as inherent risk.</p>	<p>To address the risk, we:</p> <ul style="list-style-type: none"> • Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; • Sample tested key asset information used by the valuers in performing their valuation; • Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE. We also considered if there were any specific changes to assets that had occurred and that these had been communicated to the valuer; • Reviewed assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated; • Considered changes to useful economic lives as a result of the most recent valuation; and • Tested accounting entries had been correctly processed in the financial statements. <p>From our testing we:</p> <ul style="list-style-type: none"> • Are satisfied with the scope of the work performed by the valuer including their professional capabilities; • Found the underlying assumptions reasonable, from our sample testing of key asset valuations in the year end; • Confirmed Council records that the Council has valued all assets within a five year rolling programme. We did not find any significant changes to assets requiring a revaluation; • Did not identify material variances from our indexation review of assets not revalued in year; • Did not find any significant changes to economic lives as a result of the most recent valuation; and • Agreed that the Council had correctly processed the accounting entries in the financial statements.

Financial Statement Audit (cont'd)

Other Key Findings	Conclusion
<p>Pension liability valuation</p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body. The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet.</p> <p>The information disclosed is based on the IAS 19 report issued to the Council by the actuary. As with other councils, accounting for this scheme involves significant estimation and judgement and due to the nature, volume and size of the transactions we consider this to be a higher inherent risk.</p>	<p>To address the risk, we:</p> <ul style="list-style-type: none"> • Liaised with the auditors of the administering authority (Essex County Council), to obtain assurances over the information supplied to the actuary in relation to Tendring District Council; • Assessed the conclusions drawn on the work of the actuary, Barnett Waddingham and the Consulting Actuary, PWC, who are commissioned by the National Audit Office, including the use of our own pensions specialists; • Reviewed, where available, the outturn against actuarial estimates; and • Reviewed and tested the accounting entries and disclosures made in relation to International Accounting Standard 19. <p>We have reviewed the assessment of the pension fund actuary by PWC and EY pensions and have undertaken the required work indicated to us to consider the assumptions made by the actuary.</p> <p>The EY pension fund auditor identified a movement on the total fund assets between the estimated year end balance used by the actuary in their initial IAS19 report and the actual fund assets. The impact of this movement was an overstatement of the Council's pension assets of £2.413 million, resulting in an understatement of the liability by the same amount. This amount is material and as a result the Council requested a revised IAS19 report from the actuary and has amended the accounts to reflect the updated figures. The Council had correctly used the information provided within the original IAS 19 report within its draft financial statements.</p> <p>We did not identify any issues with the accounting entries and disclosures made within the financial statements.</p>
<p>Other - Internal Audit</p> <p>At the time the Annual Government Statement was published, the Head of Internal Audit Report had not been finalised. The opinion was caveated as being subject to the completion of remaining work to be presented to the Council's Audit Committee in July 2018.</p>	<p>We recommended that Internal Audit completes all key audit work by the time the Council reviews the Annual Governance Statement. This is to give Members sufficient time to assess the impact of major findings in advance of the July opinion date.</p>
<p>Other - Narrative Report</p> <p>We reviewed the information presented in the Narrative Report for consistency with our knowledge of the Council.</p>	<p>In order to comply with the Code of Practice, we recommended the Council enhance the reporting of non-financial performance information in the Narrative Statement to include a description and comparative data for all indicators and to provide a commentary on significant changes between years.</p>
<p>Contingent Liability</p> <p>In March 2018, the Council received notification that the Health and Safety Executive would be prosecuting the Council following a legionella investigation at Frinton and Walton pool during 2016/17.</p>	<p>The Council amended Note 37 to include a Contingent Liability in accordance with International Accounting Standard IAS 37 as it is recognised that one of the outcomes from such prosecutions could be a financial penalty.</p>

Financial Statement Audit (cont'd)

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	<p>We determined planning materiality for the Council accounts to be £2.225 million (2016/17: £2.250 million), which is 2% of gross revenue expenditure reported in the accounts of £106.3 million increased by £1.6 million parish precepts. £0.3 million payments to the capital receipts pool, £1.5 million for net interest on the pension liability and £1.6 million for interest payable.</p> <p>We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p>
Reporting threshold	<p>We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.111 million (2016/17: £0.112 million).</p>

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- ▶ Remuneration disclosures, where we tested all disclosures to payroll information; and
- ▶ Related party transactions, where we performed a companies houses search for any undisclosed related parties.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations. There were no unadjusted errors.

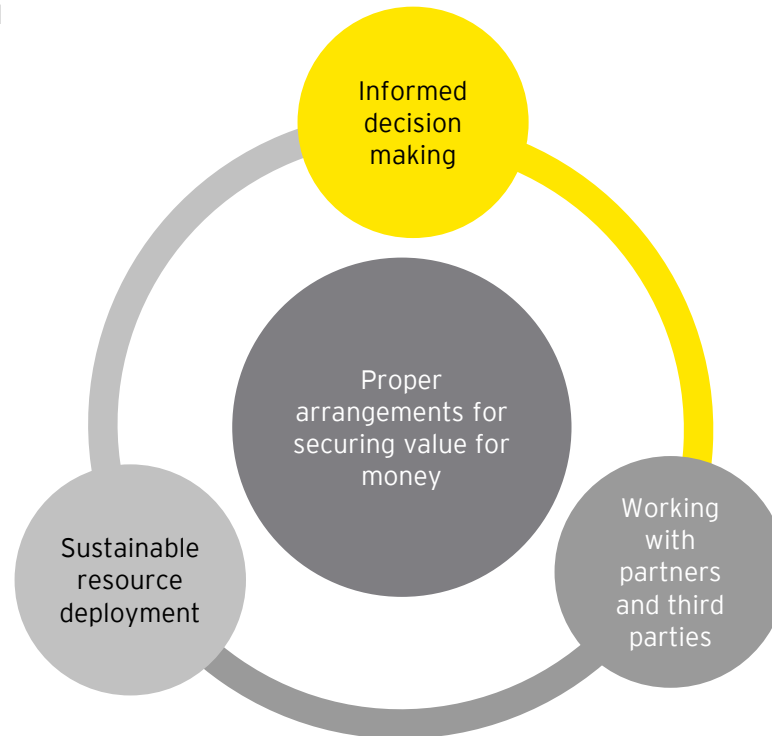


04 Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- ▶ Take informed decisions;
- ▶ Deploy resources in a sustainable manner; and
- ▶ Work with partners and other third parties.



We identified two significant risks in relation to these arrangements. The tables below present the findings of our work in response to the risks identified and any other significant weaknesses or issues to bring to your attention.

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.



Value for Money (cont'd)

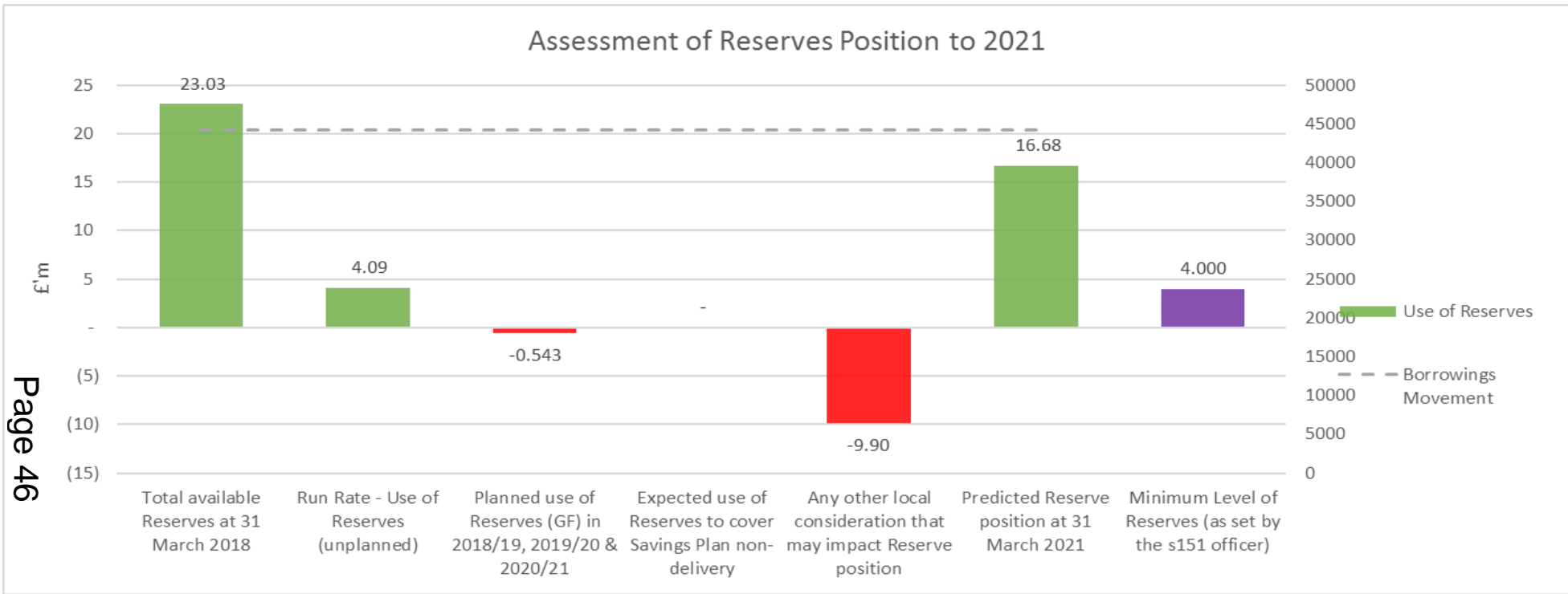
We therefore issued an unqualified value for money conclusion on 31 July 2018.

Significant Risk	Conclusion
<p>Achievement of Savings Needed over the Medium Term</p> <p>Achievement of Savings Needed over the Medium Term</p> <p>The Council faces significant financial challenges over the next three to four years, with a forecast underlying budget gap of £4.6m by 2020-21.</p> <p>Management's September 2017 report sets out a new ten year approach to budgeting, aimed at maximising savings opportunities whilst delivering growth in underlying income to deliver a balanced budget over a ten year forecast.</p> <p>However, the plan also depends upon the use of £3.7 million reserves profiled to 2024/25.</p> <p>Risks exist to the plan should income generation schemes not materialise, while using non-recurrent reserves to addressing budget gaps is not sustainable should austerity continue.</p>	<p>We have undertaken the procedures as set out in our Audit Plan, through our review of the Council's Medium Term Financial Plan (MTFP), performance reports and savings plans. We set out our observations below.</p> <p>The robustness of any assumptions used in medium term planning;</p> <p>The process for setting the Council's budget is sound. We concluded that the MTFP identifies the key assumptions expected to underpin the 2018/19 budget.</p> <p>The Council's approach to prioritising resources whilst maintaining services</p> <p>We judge that there are no pressing concerns that financial austerity is impacting on Council's performance. Of sixteen key performance indicators reported, only three were reported by the Council as being below target for 2017/18 covering: Office Rationalisation, Modern and Accessible Customer Experience and IT investment, Leisure Facilities and Recycling Rates.</p> <p>A review of the Council's revised approach to address its budget gap.</p> <p>In September 2017, the Council agreed a new approach to addressing budget gaps. In 2013/14, the Government's Revenue Support Grant supported 40% of the Council's budget. With the sharp reductions in revenue support grant over the short term, the Council's capacity to make commensurate transformational savings is limited. Therefore the Council aims to move to self-sufficiency over a longer timeframe involving income generation, flexibility in council tax increases, supporting the budget through reserves and delivering annual savings of £0.3 million.</p> <p>Our review considered the achievability of savings and income generation, the level of Council reserves, the impact of the capital programme on revenue and the frequency and transparency of reporting to Members.</p> <p>We noted that the Council's continued underspend against General Fund budget (£1.263 million 2017/18) and that the Council had general and earmarked reserves of £27.624 million and the financing of the capital programme was not unduly impacting on revenue budgets. From our work we recommended that management:</p> <ul style="list-style-type: none"> • Report on income generation schemes more frequently, providing a risk assessment of future cash flows including sensitivity testing to Members; • Seek to reduce its dependency on non-recurrent reserves and progress transformational savings in this period; • Review the balance between holding and carrying forward commitment reserves and managing its risks, given that material revenue and capital commitment reserves continue to be carried forward each year (to the combined value of £16.198 million in 2017/18). • Improve its profiling of the capital budget to ensure delivery to timescales and objectives, given the underspend of £12.250 million against the capital budget of £18 million in 2017/18; • Refine the ten year model and report to Members on a regular basis, incorporating sensitivity analysis to the riskier elements to delivery of the plan and the impact on the projected use of reserves and savings required.



Value for Money

Assessment of Reserves Position to 2021



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Our Assessment

In our assessment we considered:

- The Council's level of savings requirement to balance the General Fund budget in each of the next 3 years;
- The Council's planned use of reserves to support the General Fund budget in each of the next 3 years;
- the Council's history of delivering savings plans and therefore the potential to call upon reserves to make up a shortfall in future savings plan delivery;
- the Council's history of over or under spending on the General Fund budget, and the impact this trajectory would have on the use of General Fund reserves; and
- reliance upon income such as housing benefit administration grant, food waste income, National Non Domestic Rate Grants and Council Tax sharing which has not been confirmed post 2018/19, upon which the Council is reliant.

The graph assumes a consistent level of borrowing. As per the Treasury Management Strategy for 2018/19, the Council has no planned use of external borrowing through to 2020/21.

As a result of our assessment, we are satisfied that the Council's General Fund reserve balance at the 31 March 2021 will remain above the Council's approved minimum level of £4 million.



05

Other Reporting Issues



Other Reporting Issues

Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. The Council is below the specified audit threshold of £500mn. Therefore, we did not perform any audit procedures on the consolidation pack.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements. We requested amendments to include the final Head of Internal Audit opinion and include further details on audits receiving a requires improvement opinion with further information as regards risk management.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Other Reporting Issues (cont'd)

Objections Received

We did not receive any objections to the 2017/18 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 26 July 2018. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

The matters reported are shown below and are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported.

Description	Impact
Documentation around Compromise Agreements Our audit of Note 29 (c) Exit packages concluded that the Council had followed procedures and had the appropriate supporting documentation to support the entries in the financial statements.	However, we recommended, particularly where the Council is entering into a compromise agreement that the Council documents its reasoning as to how the redundancy will achieve value for money. This can be achieved with reference, for example, to the future savings that may arise from future restructuring arrangements within the Council.



07

Focused on your future



Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
IFRS 9 Financial Instruments	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> ▶ How financial assets are classified and measured; ▶ How the impairment of financial assets are calculated; and ▶ The disclosure requirements for financial assets. <p>There are transitional arrangements within the standard and the 2018/19 Accounting Code of Practice for Local Authorities has now been issued, providing guidance on the application of IFRS 9. In advance of the Guidance Notes being issued, CIPFA have issued some provisional information providing detail on the impact on local authority accounting of IFRS 9, however the key outstanding issue is whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Although the Code has now been issued, providing guidance on the application of the standard, along with other provisional information issued by CIPFA on the approach to adopting IFRS 9, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Council will have to:</p> <ul style="list-style-type: none"> ▶ Reclassify existing financial instrument assets ▶ Re-measure and recalculate potential impairments of those assets; and ▶ Prepare additional disclosure notes for material items.
IFRS 15 Revenue from Contracts with Customers	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none"> ▶ Leases; ▶ Financial instruments; ▶ Insurance contracts; and ▶ For local authorities; Council Tax and NDR income. <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p>	<p>As with IFRS 9, some provisional information on the approach to adopting IFRS 15 has been issued by CIPFA in advance of the Guidance Notes. Now that the Code has been issued, initial views have been confirmed; that due to the revenue streams of Local Authorities the impact of this standard is likely to be limited.</p> <p>The standard is far more likely to impact on Local Authority Trading Companies who will have material revenue streams arising from contracts with customers. The Council will need to consider the impact of this should the Council's subsidiary company North Essex Garden Communities Limited become part of the Council's accounts from 2018/19 onwards.</p>



Focused on your future (cont'd)

Standard	Issue	Impact
IFRS 16 Leases	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard and although the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.</p>



08 Audit Fees

Audit Fees

Our fee for 2017/18 is in line with the scale fee set by the PSAA and reported in our 2017/18 Annual Results Report, as adjusted for extra work arising during the audit.

Description	Final Fee 2017/18 £	Scale Fee 2017/18 £	Final Fee 2016/17 £
Total Audit Fee - Code work	See Note 1	58,708	62,027
Total Audit Fee - Certification of claims and returns	See Note 2	13,110	12,380
Total Audit Fee	To Be Confirmed	71,818	74,407

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Note 1:
As communicated in our Audit planning report, the planned Code fee for 2017/18 is subject to a scale fee variation due to a change in the scope of the audit. This is because the Council has restated the 2016/17 Net Cost of Services in the Comprehensive Income and Expenditure Accounts and supporting Expenditure Funding Analysis to reflect the new portfolio structure introduced in 2017/18.

We will discuss the additional fee in more detail with management, which will then subject to approval by the Public Sector Audit Appointments Ltd.

Note 2:

We have not yet completed our certification of the housing benefit subsidy claim and therefore cannot verify the final fee for this work. We will report this in our report on claims certification later in the year

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

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ED None

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AUDIT COMMITTEE

27 SEPTEMBER 2018

REPORT OF DEPUTY CHIEF EXECUTIVE

A.3 AUDIT COMMITTEE – TABLE OF OUTSTANDING ISSUES

(Report prepared by Richard Barrett)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To present to the Committee the progress on outstanding actions identified by the Committee.

EXECUTIVE SUMMARY

- The Table of Outstanding Issues has been reviewed and updated since it was last considered by the Committee at its 26 July 2018 meeting.
- To date there are no significant issues to bring to the attention of the Committee, with updates provided on individual items set out in **Appendix A** or elsewhere on the agenda where appropriate.
- Updates on actions identified within the latest Annual Governance Statement are set out in **Appendix B** with no significant issues to highlight at the present time.

RECOMMENDATION(S)

That the Committee notes the progress on the outstanding issues.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

The existence of sound governance, internal control and financial management practices and procedures are essential to the delivery of Corporate priorities supported by effective management and forward planning within this overall framework.

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

There are no significant financial implications associated with monitoring of the agreed actions or responses. If additional resources are required then appropriate steps will be taken including any necessary reporting requirements.

Risk

The Table of Outstanding Issues is in itself a response to potential risk exposure with further activity highlighted to address matters raised by the Audit Committee.

LEGAL

There are no direct legal implications associated with this report.

OTHER IMPLICATIONS

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.

Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected /

Consultation/Public Engagement.

This report does not have a direct impact although such issues could feature in future recommendations and actions. Any actions that may have an impact will be considered and appropriate steps taken to address any issues that may arise.

PART 3 – SUPPORTING INFORMATION

TABLE OF OUTSTANDING ISSUES

A Table of Outstanding Issues is maintained and reported to each meeting of the Committee. This approach enables the Committee to effectively monitor progress on issues and items that form part of its governance responsibilities.

An updated Table of Outstanding Issues is set out in **Appendix A**. An update on actions relating to the latest Annual Governance Statement is set out separately in **Appendix B**.

Update On Issues Raised

Any actions identified by the Committee at its last meeting have now been included where appropriate.

Updates on items either appear as separate items elsewhere on the agenda or set out within the Appendix, with work scheduled or remaining in progress on all items.

In terms of providing on-going updates to the Committee on the legionella issue experienced at the Frinton and Walton Lifestyles, the Council is currently engaged in on-going discussions with the Health and Safety Executive as part of the response to their intention to prosecute the Council.

BACKGROUND PAPERS FOR THE DECISION

None

APPENDICES

Appendix A – Table of Outstanding Issues (September 2018) – General.

Appendix B - Table of Outstanding Issues (September 2018) - Annual Governance Statement Actions

AUDIT COMMITTEE - Table of Outstanding Issues (September 2018) - GENERAL

Governance Area	Activity / Subject	Recommendation / Issue	Lead / Service	Progress /Comments	Status – Target Date
<p style="text-align: center;">Page 59</p>	<p>Effective Management of the Council's Property Portfolio</p>	<p>Following the Audit Committee's training session on 23 October 2014, Officers were requested to keep the Committee up to date with the property risk audit that is to be undertaken in partnership with the Council's insurers.</p>	<p>Head of Finance, Revenues and Benefits</p>	<p>Formal recommendations were received from the Council's insurers earlier in the year following the completion of their property risk 'audit'.</p> <p>It was originally planned to provide a full schedule of recommendations along with the Council's response at this meeting of the Committee. However some actions remain outstanding as responses from the Council's Insurers that form part of the necessary follow up work are awaited. A final schedule is now planned to be presented to the Committee at its next meeting in January 2019, although to date no major issues have been identified.</p>	<p>January 2019</p>
<p>Risk Management</p>	<p>Review of Risks within Corporate Risk Register</p>	<p>Following the Audit Committee's consideration of the Corporate Risk Register at their 26 July 2018 meeting, they requested officers to explore whether the following should be treated as separate risks within the register given their potential impact in the Council:</p> <p>1) The delivery of the Waste and Recycling Service given recent events elsewhere in the country and the failure of large contractors nationally.</p>	<p>Relevant Director</p>	<p>Officers are currently reviewing the three risks identified and will report back to the Committee in January 2019.</p>	<p>January 2019</p>

		<p>2) The delivery of the Planning Service as loss of key staff could contribute towards the failure to comply with legislative requirements.</p> <p>3) Emergency Planning arrangements in respect of flooding and the potential for fraud to be committed against the Council if a large scale event occurred.</p>			
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AUDIT COMMITTEE - Table of Outstanding Issues (September 2018) – ANNUAL GOVERNANCE STATEMENT ACTIONS

Governance Issue	Action	Current Position / Update
<p>Managing risks and performance through robust internal control and strong public financial management</p> <p>The Council adopted a new ten year approach to budgeting in 2017, aimed at maximising savings opportunities whilst delivering growth in underlying income to deliver a balanced budget over a ten year forecast.</p> <p>The plan depends upon the use of a reserve specifically established to support the long term financial plan which is estimated to provide up to £3.7 million of funding over the plan period.</p> <p>Risks exist to the plan should income generation schemes not materialise while using non-recurrent reserves to addressing budget gaps is not sustainable should austerity continue.</p>	<p>Continue to develop the long term forecast with a focus on:</p> <ul style="list-style-type: none"> • Ensuring the robustness of assumptions used in financial planning/forecasting. • Prioritising resources whilst maintaining services wherever possible. • Develop a new way of reporting progress against the new long term forecast including an assessment of risk. • Delivery a balanced budget in 2019/20 in-line with the forecast. 	<p>A revised approach to reporting the progress against the new long term forecast has been developed with the first report reported to Cabinet on 14 September 2018.</p> <p>The report brings together a number of strands of financial information in to one place which will be reported to Management Team and Members on a regular basis. Detailed estimates and a comprehensive outturn position will continue to be reported to Members in February and May respectively.</p> <p>The long term financial plan remains based on a robust approach with no optimism bias built in and includes an assessment of risk that covers each line of the forecast.</p>
<p>Implementing good practices in transparency, reporting, and audit to deliver effective accountability</p> <p>Developing the entity's capacity, including the capacity of its leadership and the individuals within it</p> <p>Council continuing to demonstrate Value for</p>	<p>To develop a robust project management approach to governance arrangements and reporting against the expected benefits / outcomes of the Council's use of resources.</p> <p>To enhance the business planning process to ensure mandates are</p>	<p>This action remains under development in consultation with the Acting Audit and Governance Manager. It is proposed to roll out a revised business planning / project management approach in the second half of this year.</p>

<p>Money in the use of its resources and delivery of major projects, for example, Garden Communities and Jaywick Sands.</p>	<p>achieved for initial scoping and developing business cases for deployment and profiling of resources.</p> <p>This will include a review of the Cabinet Report template and issue refreshed guidance on ensuring equalities implications and alternative options are fully incorporated through early considerations.</p> <p>Progress against associated projects to be reported via the Council's performance management framework</p>	
<p>Developing the entity's capacity, including the capacity of its leadership and the individuals within it</p> <p><i>(Continue the Delivery of the Transforming the Way We Work Project)</i></p> <p>There are four main strands to this project with work already underway:</p> <ul style="list-style-type: none"> • Digital • Customer Service/channel shift • Office Accommodation • People 	<p>Continue to deliver against the project aims and objectives with regular reporting via the Council's performance management framework, including the establishment of Project Boards.</p>	<p>Delivery Boards have now been set up that cover the major projects currently underway in the Council. Membership of the boards includes senior management along with the Acting Audit and Governance Manager.</p> <p>Updates against the key projects will continue to be reported via the Council's existing performance management framework.</p>
<p>Developing the entity's capacity, including the capacity of its leadership and the individuals within it</p>	<p>Embed and develop the new Committee Structure during 2018/19.</p>	<p>The new structure is fully operational and a number of meetings (including task and finish groups) have already been held this year. The new approach will continue to evolve over time with the aim of enhancing</p>

<p>The Council's Committee Structure is reducing to two Overview and Scrutiny Committees focusing on external and internal arrangements</p>		<p>and strengthening this important function of the Council so it is fully embedded by the time the district wide elections are held in May next year.</p>
<p>Managing risks and performance through robust internal control and strong public financial management</p> <p>Robust information security arrangements, including the implementation of GDPR</p>	<p>To implement and embed the new requirements introduced via the new responsibilities placed on the Council by the General Data Protection Requirements.</p>	<p>An audit approach was taken to identify the various areas of the Council where the new GDPR arrangements would have an impact with a full compliance gap analysis undertaken. An action plan was developed which is being monitored by the Council's Governance and Policy Group.</p>
<p>Determining the interventions necessary to optimise the achievement of the intended outcomes</p> <p>Outcomes from Peer Review</p>	<p>To develop an action plan for implementation in response to outcomes from the recent review including effective reporting of progress against each action identified.</p>	<p>An action plan has been developed which was approved by Cabinet at its 18 May 2018 meeting. Further updates are planned to be presented to Cabinet over the course of the year.</p>

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