



## AUDIT COMMITTEE

**DATE:** Thursday, 28 March 2019  
**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, 20 March, 2019

## 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 - 6)**

To confirm and sign as a correct record, the minutes of the last meeting of the Committee, held on 24 January 2019.

### **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 Acting Audit and Governance Manager - A.1 - Report on Internal Audit: December 2018 - February 2019 (Pages 7 - 16)**

To provide the Committee with a periodic report on the Internal Audit function for the period December 2018 – February 2019.

### **6 Report of Acting Audit and Governance Manager - A.2 - Internal Audit Plan 2019/20 (Pages 17 - 26)**

To seek the approval of the Audit Committee for the 2019/20 Internal Audit Plan.

### **7 Report of the Deputy Chief Executive - A.3 - External Auditor's Audit Planning Report for the Year Ended 31 March 2019 (Pages 27 - 62)**

To present for consideration and agreement the External Auditor's Audit Planning Report for the year ended 31 March 2019.

### **8 Report of the Deputy Chief Executive - A.4 - Table of Outstanding Issues (Pages 63 - 68)**

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

**9**     **Report of the Deputy Chief Executive - A.5 - Audit Committee Work Programme 2019/20 (Pages 69 - 74)**

To present for approval the Audit Committee's proposed work programme covering the period April 2019 to March 2020.

# **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.

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Your calmness and assistance is greatly appreciated.

**MINUTES OF THE MEETING OF THE AUDIT COMMITTEE,  
HELD ON THURSDAY, 24TH JANUARY, 2019 AT 7.30 PM  
IN THE COUNCIL CHAMBER - COUNCIL CHAMBER**

<b>Present:</b>	Councillors Coley (Chairman), Poonian (Vice-Chair), Alexander, Hones, Scott and Yallop
<b>Also Present:</b>	Clare Lewis (Fraud and Risk Manager), Martin Klaassen (Senior Governance Officer), Richard Barrett (Head of Finance, Revenues and Benefits Services), Craig Clawson (Principal Auditor), Charlotte Cooper (Leadership Support Officer)
<b>In Attendance:</b>	Keith Simmons (Head of Democratic Services and Elections)

**54. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

Apologies for absence were received from Councillor Bray (with no substitute).

**55. MINUTES OF THE LAST MEETING**

The minutes of the previous meeting of the Committee, held on 27 September 2018, were approved as a correct record and signed by the Chairman.

**56. DECLARATIONS OF INTEREST**

There were no declarations of interest made on this occasion.

**57. QUESTIONS ON NOTICE PURSUANT TO COUNCIL PROCEDURE RULE 37**

There were none.

**58. REPORT OF THE DEPUTY CHIEF EXECUTIVE - A.2 EXTERNAL AUDIT REPORT - CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT 2017/18**

At the request of the Committee Chairman Agenda item 6, report A.2 was the first to be discussed by the Committee,

The Committee had before it a report (A.2) which presented the External Auditor's certification of claims and returns annual report 2017/18. Chris Hewitt, Audit Manager for Ernst and Young attended the meeting to explain the report further to the Committee. In summary, the key outcomes from the annual report were set out as below;

- The Housing Benefit Subsidy claim was subject to audit certification by the Councils External Auditor in 2017/18.
- The External Auditor's detailed report was attached to this report. A qualification letter has been issued although there has been only a marginal effect on the subsidy receivable.
- To date no response has been received from the Department for Works and Pensions in response to the External Auditor's qualification letter. Although they have not done so in previous years, the DWP may require the Council to undertake further work or claw back subsidy that has been paid. As there have only been a limited number of relatively minor issues identified this risk is low.

Having considered the External Auditors report it was **RESOLVED** that;

- a) the contents of the External Auditor's certification of claims and returns annual report 2015/16 be noted.

**59. REPORT OF THE AUDIT AND GOVERNANCE MANAGER - A.1 - REPORT ON INTERNAL AUDIT**

**PERIODIC REPORT ON INTERNAL AUDIT – SEPTEMBER - DECEMBER 2018**

The Councils Acting Audit and Governance Manager (Craig Clawson) provided a periodic report on the Internal Audit Function for the period of September to December 2018.

The Acting Audit and Governance manager informed the Committee a total of nine audits had been completed in the period in question, of which four had been given Substantial Assurance, four have been rated Adequate Assurance and one had been rated improvement required. No audits had been raised Significant Improvement Required.

The Committee was informed that the audit completed in the period under review which had received an 'Improvement Required' opinion and which therefore required reporting to members was-

*Facilities Management (FM)*

It was reported that the scope of this review was to cover all facilities across the council and ensure that all were compliant with mandatory maintenance including periodic Health and Safety requirements. A number of significant issues along with associated actions have been identified, some of which have already been addressed.;

It was also reported that, with regards to the *Bank Account* audit, although this did not receive an 'Improvement Required' opinion overall, there was one significant issue identified in respect of the paperwork required to support credit card payments which required further attention. It has been agreed that the Head of Finance, Revenues and Benefits Services will distribute an email reminding staff of the correct process to follow when submitting credit card payment details and if the lack of supporting documentation continues, their use of the Corporate Credit Card will be withdrawn.

The Committee was reminded, that at its previous meeting there had been one significant issue reported –“*Development Management. Retention of Funds by Third Party Company (Income Management)*” which had been addressed within this report.

The Committee was made aware that with regards to the Transformation Board Project currently taking place no significant issues have been highlighted in terms of audit. There have been some changes in delivery with the 'digital transformation', however the expected outcomes remain the same. The IT and Corporate Resilience Manager has ensured that key stages are to be signed off throughout the project. It has been reported that 95% of the Network Re-Design budget has been used however, the IT and Corporate Resilience Manager has advised that the additional budget required is not significant and can be managed through existing service budgets.

**60. REPORT OF THE CORPORATE DIRECTOR (CORPORATE SERVICES) - A.3 - TABLE OF OUTSTANDING ISSUES**

The Committee had before it a report (A.3) of the Deputy Chief Executive presenting to Members the progress on 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 27 September 2018. A detailed update was provided following a risk review undertaken by the Council's insurers that was requested by the Committee. A number of points were raised by the Committee that will be reflected going forward.

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.3 of the Report of the Deputy Chief Executive, or elsewhere on the agenda where appropriate.

Having considered the report (A.3) of the Deputy Chief Executive, it was **RESOLVED** that the progress on the outstanding issues be noted.

#### **61. REPORT OF THE DEPUTY CHIEF EXECUTIVE - A.4 CORPORATE RISK REGISTER - JANUARY 2019**

The Committee had before them a Report of the Deputy Chief Executive (A.4) which presented to Members the updated Corporate Risk Register, last presented to the Committee July 2018

It was reported that, within the period under review, no new risks had been added to the register, no risks had been removed, one risk score had been amended, no items are currently under review and no items have been amended.

Risk scores have been amended in respect of;

- (1) 2a Coastal Defence.

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 sets out the recommendations identified and the current position against each of those actions;

<b>Agreed Action</b>	<b>Current Position</b>
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.	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 attends Management Team meetings on a quarterly basis and provides monthly updates.
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	One to one meetings have now concluded and feedback received. A deadline has been set for Heads of Service to finalise their departmental risk assessments to conclude this action.  Once concluded any required changes to the corporate risk register will be made.

<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>Following on from the comments above, a quality control process will be implemented once departmental risk registers have been finalised.</p>
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Members recalled that at its meeting on 26 July 2018 the Committee requested that Officers review a number of risks to explore whether they should be treated as separate risks within the register given their potential impact on the Council. It was updated that this review has been completed with the outcomes set out below;

<b>Issue Raised</b>	<b>Outcome from Review</b>
<p>The delivery of the Waste and Recycling Service given recent events elsewhere in the country and the failure of large contractors nationally.</p>	<p>The contractor is considered to be a stable contractor and there are no issues relating to their financial performance. A 7 year extension to the existing contract has recently been negotiated.</p> <p>Item 9b of the corporate risk register addresses the associated general business continuity risk without itemising specific contractual areas.</p>
<p>The delivery of the Planning Service as loss of key staff could contribute towards the failure to comply with legislative requirements</p>	<p>Entry 4a on the risk register specifically relates to loss of key staff; whilst in Planning the existing margin is slight, efforts are in place that over the next three years through the grow your own programme will significantly reduce this risk in planning.</p> <p>It is not proposed to include a separate item on the corporate risk register over and above the item 4a mentioned above.</p>
<p>Emergency Planning arrangements, in</p>	<p>It is recognised that should the impact</p>



<p>respect of flooding or some other major incident, could result in the Council providing a significant number of alternative residences for a protracted period. This could seriously divert Council Officers from various departments and significantly deplete the financial reserves of the Council in the medium term.</p> <p>The Council should also be mindful that, in these circumstances, experience shows that the Council will potentially be the target of financial fraud. This would also divert Officers from their normal responsibilities and deplete Council funds.</p>	<p>occur it would be significant but the likelihood based on previous years, and the counter measures already in place such as insurance teams as well as our own housing teams being familiar with the existing client base, and having access to a wealth of client data, means vulnerability to fraud on the scale of Grenfell is remote and does not need specific entry on the register.</p> <p>Emergency planning under entry 9a will form part of existing plans for specifically rehousing existing clients; whilst entry 3d addresses fraud and corruption risk.</p>
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After consideration of this item it was **RESOLVED** that the contents of the updates provided to the current Risk Register be noted.

## 62. **REPORT OF THE DEPUTY CHIEF EXECUTIVE - A.5 FRAUD AND CORRUPTION STRATEGY**

The Committee had before it a Report of the Deputy Chief Executive (A.5) which presented to the Committee an updated Anti-Fraud and Corruption Strategy.

The Committee was informed that the Council's Fraud and Corruption Strategy was 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 have been required. The Committee considered an updated Anti-Fraud Corruption Strategy at its 26 July 2018 meeting for consultation. The updated strategy incorporated the various elements of Cipfa's code of practice on managing the risk of fraud and corruption which was adopted by the Committee at its 22 March 2018 meeting.

An updated Anti-Fraud and Corruption Strategy was before the Committee (as an appendix to item A.5 of the Report of the Deputy Chief Executive) which reflects a number of amendments emerging as part of the consultation process.

Having considered the #Report (A.5) of the Deputy Chief Executive, it was **RESOLVED** that the Committee approved the amended Anti-Fraud and Corruption Strategy.

The meeting was declared closed at 8.34 pm

**Chairman**

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## AUDIT COMMITTEE

28 MARCH 2019

### REPORT OF ACTING AUDIT AND GOVERNANCE MANAGER

#### A.1 REPORT ON INTERNAL AUDIT – December 2018 to February 2019

(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 December 2018 – February 2019

##### EXECUTIVE SUMMARY

- A total of four audits have been completed since the previous update in January 2019. Fieldwork has been completed on another audit with the actions and overall opinion yet to be agreed.
- Consultative reviews are still ongoing; Digital Transformation Programme, Office Transformation Programme, Project Management and PCI DSS Compliance. There have been no material changes since the last audit committee to report.
- No significant issues were identified in the period

##### RECOMMENDATION(S)

That the Internal Audit Plan progress to date be noted.

#### 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.

##### 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 require the Acting Audit and Governance Manager, to make arrangements for reporting periodically to senior management (Management Board) and to the board (Audit Committee).

#### **INTERNAL AUDIT PLAN PROGRESS**

A total of four audits have been completed since the previous update in January 2019. Fieldwork has been completed on another audit, Inventory Management; with the actions and overall opinion yet to be agreed.

Based on the audits completed, days spent on audits currently in fieldwork phase and consultancy days used for service support the percentage of the plan complete is forecast at 82%. Targeted percentage complete for this period is around 90%.

As previously reported at January 2019 Audit Committee, even though we are behind target it is anticipated that all key audits will be completed within the next six weeks in order to provide an overall assurance opinion in the Annual Governance Statement in May 2019 and the Head of Internal Audit Annual Report due to be reported in July 2019.

All four audits reported this period have received a satisfactory level of assurance, with no significant issues to be reported.

Consultative reviews are still ongoing; Digital Transformation Programme, Office Transformation Programme, Project Management and PCI DSS Compliance. There have been no material changes since the last audit committee to report.

Although there have been no significant developments to report regarding the above consultative reviews there are some events within audits undertaken worth reporting.

## ***Inventory Management***

As mentioned at previous Audit Committee meetings, Internal Audit is pro-actively working to support services in delivering objectives and improving service delivery rather than report on an exception basis alone. The scope of this review was to assess Inventory Management and Stock Control across the organisation. Internal Audit has taken the opportunity to develop a common sense guide to inventory which also includes the risks around not completing specified tasks. We have also developed some inventory control spreadsheets that can be used by all departments to promote a consistent approach to inventory control across the Council. This will be distributed to all managers with inventory and stock control responsibilities in the coming weeks.

## ***Health and Safety***

Health and Safety processes have been significantly strengthened since the previous audit; this includes both service driven Health and Safety processes when using third parties and the internal Corporate Health and Safety management processes.

To support the service in managing day to day Health and Safety issues and actions, Internal Audit have commissioned its audit management software supplier (Pentana Audit) to create another database for Health and Safety to record incidents, retain photographs and evidence, produce statistical data and potentially even use it to export reports all under one system in a way that is much more sophisticated than Microsoft Excel can allow.

## ***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.

## ***Resourcing***

Internal Audit is currently without two Officers within its establishment. One Auditor has now gone on maternity leave. The capacity of the Internal Audit Team is currently 2 fte with an apprentice supporting where she can.

In terms of the 2018/19 Internal Audit Plan, we believe we can deliver the outstanding audits with the current resource level in order to provide an assurance opinion in May. However, with regards to the 2019/20 Internal Audit Plan, if our Senior Auditor continues to remain on an extended period of long term sick leave then we will need to recruit some short term resource to support the team. This may be through the use of agency staff or via short term secondment.

## ***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	8	
Adequate		2	8	
Improvement Required		0	2	
Significant Improvement Required		0	0	
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.

There have been no significant Issues arising from audits completed in the period under review receiving an 'Improvement Required' opinion and requiring reporting to Committee.

### Update on previous significant issues reported

#### Facilities Management (FM)

There were three significant actions required from the crematorium reported at the previous Audit Committee. One is still outstanding;

- *A fire evacuation testing process is to be introduced that adheres to Health and Safety regulations while considering the sensitivity of the services provided to the public. Liaise with Health and Safety to establish an acceptable approach.*

A fire evacuation procedure has been produced by the Bereavement Services Manager, however; further liaison will be undertaken with Health and Safety to ensure that there is consistency with fire evacuation plans undertaken elsewhere across the Council.

#### Bank Account

The following action was required from the S151 Officer reported at the last Audit Committee;

- *The Head of Finance, Revenues & Benefits Services will distribute an email reminding staff of the correct process to follow when submitting credit card payment details and if the lack of supporting documentation continues, their use of the Corporate Credit Card will be withdrawn.*

This action is now complete and reminders have now been sent to all corporate credit card holders to share with their respective teams.

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

<b>Status</b>	<b>Number</b>	<b>Comments</b>
Overdue more than 3 months	0	
Overdue less than 3 months	1	Relates to Crematorium Fire Evacuation Procedures
Not yet due	4	

#### **BACKGROUND PAPERS FOR THE DECISION**

Audit Reports

#### **APPENDICES**

Appendix A – Internal Audit Plan 2018/19 Progress Report

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<b>Tendring District Council Internal Audit</b>			
<b>2018/19 Internal Audit Plan Progress Report</b>			
<b>Audit Title</b>	<b>Status March 2019</b>	<b>Audit Type</b>	<b>Audit Opinion</b>
<b>2017/18 Carry Forward</b>			
IT Support	Complete	Full review of IT Support Services. Assess security and data integrity controls and assess performance indicators	<b>Adequate Assurance</b>
<b>Key Systems / Key Financial Risk Areas</b>			
Procurement	Fieldwork	Continuous Auditing Approach. Five days allocated per quarter of the annual plan	To be confirmed
Housing Benefits	Fieldwork	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	Complete	<b>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</b>	<b>Adequate Assurance</b>
Main Accounting System	Complete	<b>Data Analytics is the main audit technique used within this audit</b>	<b>Substantial Assurance</b>
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	<b>Substantial Assurance</b>
Banking	Complete	Mainly Self-Assessment with some testing required	<b>Adequate Assurance</b>
Council Tax	Fieldwork	Different Techniques involved. To include self-assessment, Root cause analysis / Data Analytics and Assurance Mapping exercises.	To be confirmed

Payroll	Complete	Data Analytics is the main audit technique used within this audit	<b>Substantial Assurance</b>
Accounts Payable	Complete	Data Analytics is the main audit technique used within this audit	<b>Substantial Assurance</b>
Treasury Management	Complete	Assurance Mapping, Self-Assessments and Data Analytics are the main techniques used	<b>Substantial Assurance</b>
Housing Rents	Fieldwork	Root cause analysis / Data Analytics	To be confirmed
Cash Receipting	Complete	Root cause analysis / Data Analytics	<b>Adequate Assurance</b>
<b>Accounts Receivable</b>	<b>Complete</b>	<b>Data Analytics is the main audit technique used within this audit</b>	<b>Substantial Assurance</b>
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

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

Inventory / Stock Control	Draft Report	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	<b>Acting Audit and Governance Manager is part of the transformation delivery board</b>	<b>Review of governance arrangements, decision making, cost / benefit analysis and benefit realisation</b>	<b>Consultative Review</b>
Project Management	<b>Design of Project Management Governance Process now complete</b>	<b>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</b>	<b>Consultative Review</b>
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	Delayed	Full review of Housing Allocations Service	To be confirmed
Land Charges	Complete	Self – Assessment and Audit Testing	<b>Substantial Assurance</b>
Development Management	Complete	Planning Processes from Application process, Income Management Process through to the Appeals Process  Significant issue identified relates to Income Management	<b>Improvement Required</b>
<b>Health &amp; Safety</b>	<b>Complete</b>	<b>Spot checks, Compliance reviews and Self - Assessments</b>	<b>Adequate Assurance</b>
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

<b>Computer Audit</b>			
Digital Transformation Programme	Acting Audit and Governance Manager is 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	<b>Consultative Review</b>
IT Governance	Fieldwork	PSIAS expectation that this will be covered each year.	To be confirmed
IT Assets	Complete	Includes detailed testing to ensure that all IT Assets are accounted for. Additional security arrangements required from standard stock control	<b>Adequate Assurance</b>
Business Continuity & Emergency Planning	Complete	Review of current arrangements including how financial capacity is built in to emergency planning and business continuity procedures	<b>Adequate Assurance</b>

**Status Key**

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

## AUDIT COMMITTEE

28 MARCH 2018

### REPORT OF ACTING AUDIT AND GOVERNANCE MANAGER

#### A.2 INTERNAL AUDIT PLAN 2019/20 (Report prepared by Craig Clawson)

#### PART 1 – KEY INFORMATION

##### PURPOSE OF THE REPORT

To seek the approval of the Audit Committee for the 2019/20 Internal Audit Plan.

##### EXECUTIVE SUMMARY

- The 2019/20 Audit Plan has been developed using a risk based approach, taking account of the Councils Corporate Objectives, Corporate Risks and Emerging Risks.
- The establishment for the Internal Audit function is currently 3.6 fte. A restructure of the service is proposed in 2019/20 maintaining the same resources with an update to be provided at the July 2019 Audit Committee.
- The level and range of coverage is considered sufficient for the Acting Audit and Governance Manager to be able to provide an annual opinion on the Council's assurance framework.

##### RECOMMENDATION(S)

- (a) that the Internal Audit Plan for 2019/20 be approved; and**
- (b) that the existing arrangements for updating the plan during the year, where necessary to reflect changing Authority activity and operational needs and to provide flexibility of service delivery, be continued, with significant amendments reported to this committee as part of the periodic Internal Audit reporting arrangements.**

#### 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 proposed 2019/20 Internal Audit Plan can be resourced from the 2019/20 budget. The

total budget is £188,340 for 2019/20 so therefore there has been no reduction in financial resources.

**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 undertake an effective internal audit.

**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**

In respect of the Internal Audit Plan the Public Sector Internal Audit Standards require the Acting Audit and Governance Manager to: -

- Establish a risk based Internal Audit Plan, at least annually, to determine the priorities of the Internal Audit function, consistent with the Council's goals.
- Has in place a mechanism to review and adjust the plan, as necessary, in response to changes to the Council's business, risks, operations, programmes, systems and controls.
- Produces a plan that takes into account the need to produce an annual Internal Audit opinion.
- Considers the input of senior management and the Audit Committee in producing the plan.
- Assesses the Internal Audit resource requirements.

**DEVELOPMENT OF THE AUDIT PLAN**

The Internal Audit Plan has been produced taking into account the requirements as set out in the Public Sector Internal Audit Standards, the current Internal Audit Charter and with an emphasis on continuing to use different audit techniques and reporting styles as previously

reported.

The 2019/20 Audit Plan has been developed using a risk based approach, taking account of the Councils Corporate Objectives, Corporate Risks and Emerging Risks. A Risk Assessment process has also been undertaken on all auditable areas (Audit Universe) of the Council to enable the Acting Audit and Governance Manager to provide an opinion on the effectiveness of governance, risk management and internal control processes within the organisation and provide reasonable assurance to the Audit Committee.

Existing knowledge of the auditable areas and historical data on operational processes within each service area has allowed for a practical assessment on whether a full audit, a leaner audit or a more balanced approach is required. The proposed audit approach for all audits is set out within the Draft Internal Audit Plan (Appendix A).

Discussions have been held with Management Team members individually and collectively. The feedback from Management Team has been taken into account and incorporated within the plan presented to the Committee. The Committee now has the opportunity to input into the draft plan provided.

### **INTERNAL AUDIT RESOURCE REQUIREMENTS**

The establishment for the Internal Audit function is currently 3.6 fte. A restructure of the service is proposed in 2019/20 maintaining the same resources with an update to be provided at the July 2019 Audit Committee.

The proposed plan has been developed based on the current resource available and the teams' adaptation to new innovative and leaner ways of working. The number of audit days has been reduced from 570 to 520; however, this will not impact on the level of assurance provided to the audit committee and the overall assurance opinion for a number of reasons;

- A leaner more practical audit plan has been developed using a risk based approach, knowledge of all operational processes within service areas, historical assurance opinions and an understanding of where procedural changes have occurred around the Council.
- By having a leaner audit plan it has saved a total of 50 days that can now be used to support services in implementing agreed audit actions to help them facilitate change and create more efficient and effective processes within their area.

### **INTERNAL AUDIT PLAN DETAIL**

The plan provides an outline of the work currently proposed to be undertaken during the 2019/20 financial year. In order to provide a proactive and flexible approach the plan should be considered indicative of the work currently intended. The Internal Audit Plan needs to be flexible to ensure that Internal Audit resources are directed where they are most needed, and add as much value as possible to the organisation.

The plan will be kept under review during the year, in consultation with the Council's senior management, and taking account of changes to the Council's priorities, operations and risk. Changes to the plan will be brought to the attention of the Committee for approval.

The Internal Audit Plan is not intended to provide coverage, in any one year, of the entire Audit Universe. If resources become available as a result of plan changes during the year,

then priority will be given to audits with the highest ranking that were not included in the plan, that are considered to be due.

The plan is considered to be in effect a rolling programme of work, rather than being specific to one year, and audits scheduled, but incomplete at the end of any financial year roll forwards and are completed in the new financial year.

A detailed breakdown of the Audit Plan is included in Appendix A.

The Committee's attention is drawn to the following: -

- **The comments section** of the plan provides additional detail on the audit techniques to be used to deliver the reviews, a brief summary of what is included within the audit and in some instances why it is included in the plan
- **Emerging key projects** – there are a number of projects in progress or due to start in 2019/20. It is unknown at this stage the level of capacity needed from Internal Audit to support the Council in delivering and/or providing independent advice on the projects. Time has been allocated to support the Council and further detail will be provided to the Audit Committee when the level of involvement becomes clear. An example of an emerging key project now included in the audit plan for full review is Garden Communities.
- **Development** – Some days have been allocated within the plan to ensure that there is enough time available for the Audit Team to incorporate all of the new processes, procedures, techniques and reporting arrangements into all areas of their work. The time has been reduced in the 2019/20 plan due to the improvements made in the last twelve months, however some time is still needed to continue to improve and adapt to changes in both the internal and external environment.

As referred to above mechanisms exist to allow amendment to the plan and if any issues arise regarding the risks in the current Corporate Risk Register, or new risks emerge including any identified by the Council's external auditors, then plan adjustments will be considered.

***The level and range of coverage is considered sufficient for the Acting Audit and Governance Manager to be able to provide an annual opinion on the Council's assurance framework.***

## **BACKGROUND PAPERS FOR THE DECISION**

Audit Plan Working Papers

## **APPENDICES**

Appendix A - Internal Audit Plan 2018/19



Tendring District Council Internal Audit				
2019/20 Internal Audit Plan				
Audit Title	Days Allocated	Total Days	Comments	Associated Inherent Risk Categories
<b>Key Systems / Key Financial Risk Areas</b>				
Procurement	20		Continuous Auditing Approach. Five days allocated per quarter of the annual plan	<ul style="list-style-type: none"> <li>• Financial</li> <li>• Reputation</li> <li>- General Governance and Fraud</li> </ul>
Housing Benefits	15		Different Techniques involved.  Self-assessment, Root-cause analysis / Data Analytics and Assurance Mapping exercises until Universal Credit is adopted.	<ul style="list-style-type: none"> <li>• Financial</li> <li>• Reputation</li> <li>- General Governance and Fraud</li> </ul>
Business Rates	15		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	<ul style="list-style-type: none"> <li>• Financial</li> <li>• Reputation</li> <li>- General Governance and Fraud</li> </ul>
Main Accounting System	10		Data Analytics is the main audit technique used within this audit	<ul style="list-style-type: none"> <li>• Financial</li> </ul>
Corporate Governance	10		Assurance Mapping and Self-Assessments to be used within this audit. Interviews with Senior Management required to ascertain the culture of the organisation	<ul style="list-style-type: none"> <li>• Reputation</li> <li>- General Governance</li> </ul>
Banking	5		Mainly Self-Assessment with some testing required	<ul style="list-style-type: none"> <li>• Financial</li> <li>- General Governance</li> </ul>
Council Tax	15		Different Techniques involved. To include self-assessment, Root cause analysis / Data Analytics and Assurance Mapping exercises.	<ul style="list-style-type: none"> <li>• Financial</li> <li>• Reputation</li> <li>- General Governance and Fraud</li> </ul>

APPENDIX A

Payroll	10		Data Analytics is the main audit technique used within this audit	<ul style="list-style-type: none"> <li>• Financial</li> <li>• Reputation</li> </ul> <p>- General Governance and Fraud</p>
Accounts Payable	10		Data Analytics is the main audit technique used within this audit	<ul style="list-style-type: none"> <li>• Financial</li> </ul>
Treasury Management	8		Assurance Mapping, Self-Assessments and Data Analytics are the main techniques used	<ul style="list-style-type: none"> <li>• Financial</li> <li>• Reputation</li> </ul> <p>- General Governance and Fraud</p>
Housing Rents	12		Root cause analysis / Data Analytics	<ul style="list-style-type: none"> <li>• Financial</li> <li>•</li> </ul>
Cash Receipting	10		Root cause analysis / Data Analytics	<ul style="list-style-type: none"> <li>• Financial</li> </ul>
Accounts Receivable	10		Data Analytics is the main audit technique used within this audit	<ul style="list-style-type: none"> <li>• Financial</li> </ul>
Contract Management – Waste and Street Sweeping	15		Review of the contract management processes in place for the new waste and street sweeping contracts as well as performance and resolution management.	<ul style="list-style-type: none"> <li>• Financial</li> <li>• Reputation</li> </ul> <p>- General Governance and Fraud</p>
Capital Programme	10		Detailed review of the Council’s capital programme and approach to capitalising expenditure.	<ul style="list-style-type: none"> <li>• Financial</li> </ul> <p>- General Governance and Fraud</p>
		<b>175</b>		

Other Systems / Service Area				
Housing Repairs and Maintenance	15		Overview of the planned repairs and maintenance programme and inspections schedule.	<ul style="list-style-type: none"> <li>• Financial</li> </ul> <p>- General Governance and Fraud</p>
Risk Management	10		Required annually under PSIAS and Cipfa guidance	<ul style="list-style-type: none"> <li>- General Governance</li> </ul>

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Due Diligence	15		To review processes in place before contractors are appointed and ensure adequate due diligence is completed prior to awarding contracts and leases to third parties	<ul style="list-style-type: none"> <li>• Financial</li> <li>• Reputation</li> <li>- General Governance and Fraud</li> </ul>
Ethical Decision Making	10		Cipfa and the IIA recommend that Internal Audit undertake an annual ethics and culture review. This review will assess how ethics is incorporated within the Council's decision making processes	<ul style="list-style-type: none"> <li>• Financial</li> <li>- General Governance</li> </ul>
Social Media	5		Assess policies and procedures in place at both member and officer level as well the controls in place to limit reputational damage in the event of potential misuse	<ul style="list-style-type: none"> <li>• Reputation</li> <li>- General Governance</li> </ul>
Transformation Programme	15		Review of governance arrangements, decision making, cost / benefit analysis and benefit realisation  Consultative review as the programme progresses.	<ul style="list-style-type: none"> <li>• Reputation</li> <li>• Financial</li> <li>- General Governance</li> </ul>
External Funding	10		Examine the Councils approach to exploring external funding opportunities for both the community and the organisation	<ul style="list-style-type: none"> <li>• Financial</li> <li>- General Governance</li> </ul>
Leisure Centres – Follow Up	10		Follow up on self-assessment exercise and concentrate on key themes from the 2018/19 review.	<ul style="list-style-type: none"> <li>• Financial</li> <li>- General Governance</li> </ul>
Planning Enforcement	10		Review processes and procedures related to breaches in planning control and assess their efficiency and effectiveness from receipt of complaint through to decision making and enforcement action.	<ul style="list-style-type: none"> <li>• Reputation</li> <li>- General Governance and Fraud</li> </ul>

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Health & Safety	10		Spot checks, Compliance reviews and Self - Assessments	<ul style="list-style-type: none"> <li>• Safety</li> <li>• Reputation</li>   <li>- General Governance</li> </ul>
Garden Communities	10		Review of the progress to date of the Garden Communities initiative and assess the risks and controls in place	<ul style="list-style-type: none"> <li>• Financial</li> <li>• Reputation</li>   <li>- General Governance</li> </ul>
Emerging Key Projects	10		Provision for emerging projects. Considered as a contingency provision to be allocated during year to specific tasks as appropriate	<ul style="list-style-type: none"> <li>• Reputation</li> <li>• Financial</li>   <li>- General Governance and Fraud</li> </ul>
		<b>130</b>		

<b>Computer Audit</b>				
Digital Transformation Programme	20		IT continues to be one of the biggest risk areas to all organisations. Governance arrangements and project delivery to be within scope  Consultative review as the programme progresses.	<ul style="list-style-type: none"> <li>• Financial</li> <li>• Reputation</li>   <li>- General Governance</li> </ul>
IT Governance	5		PSIAS expectation that this will be covered each year.	- General Governance
Information Governance - GDPR Review	10		To review progress and implementation of GDPR within Council processes.	- General Governance
Application Review - Agresso IT Security, Data Security and IT General Control	10		IT Application review. Assess security controls; input, output and processing. Change Management Logical Access System Development Life Cycle	<ul style="list-style-type: none"> <li>• Financial</li>   <li>- General Governance</li> </ul>
		<b>45</b>		

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<b>Action Tracking / Follow Up</b>	40		Time allocated to chase, monitor and review the implementation of outstanding audit actions	<ul style="list-style-type: none"> <li>N/A</li> </ul>
		<b>40</b>		
<b>Carry Forward of Work in Progress</b>	40		Audits in progress at 31st March 2019. May be necessary to revise figure at late stage in plan process	<ul style="list-style-type: none"> <li>N/A</li> </ul>
		<b>40</b>		
<b>Other</b>				
Consultancy & Advisory	60		Consultancy and advice, requested and unplanned audits, investigations.	<ul style="list-style-type: none"> <li>N/A</li> </ul>
Development	30		Time needed to adapt to internal and external changes and ensure that audit techniques, testing and reporting remain up to date	<ul style="list-style-type: none"> <li>N/A</li> </ul>
		<b>90</b>		
<b>Total</b>		<b>520</b>		

\***Associated Inherent Risk Categories** are the overarching risk headings in which Corporate Risks and Business Risks are developed. In order to reach a high enough level to be considered a significant risk to the authority and require management action and audit resource there must be an element of Governance, Financial, Reputational, Fraud and Safety risk identified.

**Glossary**

<b>Self-Assessment</b>	Services to assess own processes and controls. Internal Audit to undertake testing only.
<b>Data Analytics</b>	To compare large volumes of data and analyse specific trends, errors or anomalies.
<b>Assurance Mapping</b>	To review other assurance reports on the service area and take assurance from those reviews already complete where possible.
<b>Root Cause Analysis</b>	Where continuous issues arise, Internal Audit will identify the root cause and support the service in resolving the systemic issue rather than the singular one-off issue arising from audit testing.

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## AUDIT COMMITTEE

28 MARCH 2019

### REPORT OF DEPUTY CHIEF EXECUTIVE

#### A.3 EXTERNAL AUDITOR'S AUDIT PLANNING REPORT FOR THE YEAR ENDED 31 MARCH 2019

(Report prepared by Richard Barrett)

#### PART 1 – KEY INFORMATION

##### **PURPOSE OF THE REPORT**

To present for consideration and agreement the External Auditor's Audit Planning Report for the year ended 31 March 2019.

##### **EXECUTIVE SUMMARY**

The newly appointed External Auditor's Audit Plan for the year ending 31 March 2019 is attached, which sets out their planned audit work in respect of informing their opinion on the 2018/19 Financial Statements and the Council's use of resources.

As set out in their report, the plan forms a key part of their communication strategy with the Council which has been designed to promote effective two way communication throughout the audit process with those charged with governance.

The plan is set against a risk based approach to provide a focus on areas of the financial statements where the risk of material misstatement is higher or where there is a risk that the organisation has not made proper arrangements for securing value for money in its use of resources.

##### **RECOMMENDATIONS**

**That the Audit Committee considers and agrees the External Auditor's Audit Planning Report for the year ended 31 March 2019.**

#### PART 2 – IMPLICATIONS OF THE DECISION

##### **DELIVERING PRIORITIES**

Delivery against priorities, service improvement and governance arrangements are improved through external challenge such as from external audit inspections and reviews.

##### **FINANCE, OTHER RESOURCES AND RISK**

###### **Finance and other resources**

**Page 23** of the attached sets out a breakdown of fees. The planned fee totals **£54,705** (including certification of claims and returns) which can be met from within existing budgets.

No allowance is made within the overall fee for additional work that may be required such as that associated with additional requirements placed on the Council or unforeseen

circumstances, which would be the subject of further reports where necessary.

### **Risk**

Not supporting and responding practically and timely to External Audit activity may have an impact on the delivery of the Council's priorities, reputation, governance arrangements and overall control environment.

### **LEGAL**

The Council is required to ensure there are adequate internal audit / internal control arrangements in place.

The Accounts and Audit Regulations 2015 introduced a change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts has been brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.

The PSAA is specified as an appointing person under the provisions of the Local Audit and Accountability Act 2014 and regulation 3 of the Local Audit (Appointing Person) Regulations 2015. For audits of the accounts from 2018/19, the PSAA appoints an auditor to relevant principal local government authorities that have opted into its national scheme. At the meeting of Full Council on 7 February 2017 it was agreed to opt in to the PSAA's national scheme. Appointments are made for the duration of a five-year appointing period. The current appointing period covers the audits of the accounts for 2018/19 to 2022/23.

### **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.**

There are no direct implications.

## **PART 3 – SUPPORTING INFORMATION**

### **AUDIT PLAN 2018/19**

Shortly after the end of each financial year the Council prepares in accordance with proper practices a Statement of Accounts as statutorily required which is then subject to external audit before final publication. From 2017/18, the publication deadline has been shortened by two months with the date that the accounts must be audited and published being revised to the end of July each year.

The Audit Plan issued by the External Auditor highlights at a summary level, aspects of the work they plan on undertaking and why, including the value for money conclusion. The External Auditor has also highlighted a number of key risks along with their planned audit approach against each item identified.

The outcome of the External Auditor's work will be set out in their Audit Completion Report that will be presented to the Audit Committee at their July 2019 meeting followed by the Annual Audit Letter provided to the Council shortly after.



<b>BACKGROUND PAPERS FOR THE DECISION</b>
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None
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<b>ATTACHMENTS</b>
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The External Auditor's Audit Planning Report for the year ended 31 March 2019
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Report to the Audit Committee

# TENDRING DISTRICT COUNCIL

Audit Planning: year ending 31 March 2019

Issued: 13 March 2019

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# WELCOME

## Introduction

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We have pleasure in presenting our Audit Planning Report to the Audit Committee of Tendring District Council (the 'Council'). This report forms a key part of our communication strategy with you, a strategy which is designed to promote effective two way communication throughout the audit process with those charged with governance.

It summarises the planned audit strategy for the year ending 31 March 2019 in respect of our audit of the financial statements of the Council and use of resources; comprising materiality, key audit risks and the planned approach to these, together with timetable and the BDO team.

The planned audit strategy has been discussed with management to ensure that it incorporates developments in the business during the year under review, the results for the year to date and other required scope changes.

We look forward to discussing this plan with you at the Audit Committee meeting on 28 March 2019 and to receiving your input on the scope and approach.

In the meantime if you would like to discuss any aspects in advance of the meeting please contact one of the team.

Aphrodite Lefevre

13 March 2019



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This report has been prepared solely for the use of the Governance and Audit Committee and Those Charged with Governance and should not be shown to any other person without our express permission in writing. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the appendices.

# SCOPE AND MATERIALITY

## Executive summary

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This summary provides an overview of the key audit matters that we believe are important to the Audit Committee in reviewing the planned audit strategy for the Council for the year ending 31 March 2019.

It is also intended to promote effective communication and discussion and to ensure that the audit strategy appropriately incorporates input from those charged with governance.

### Audit scope

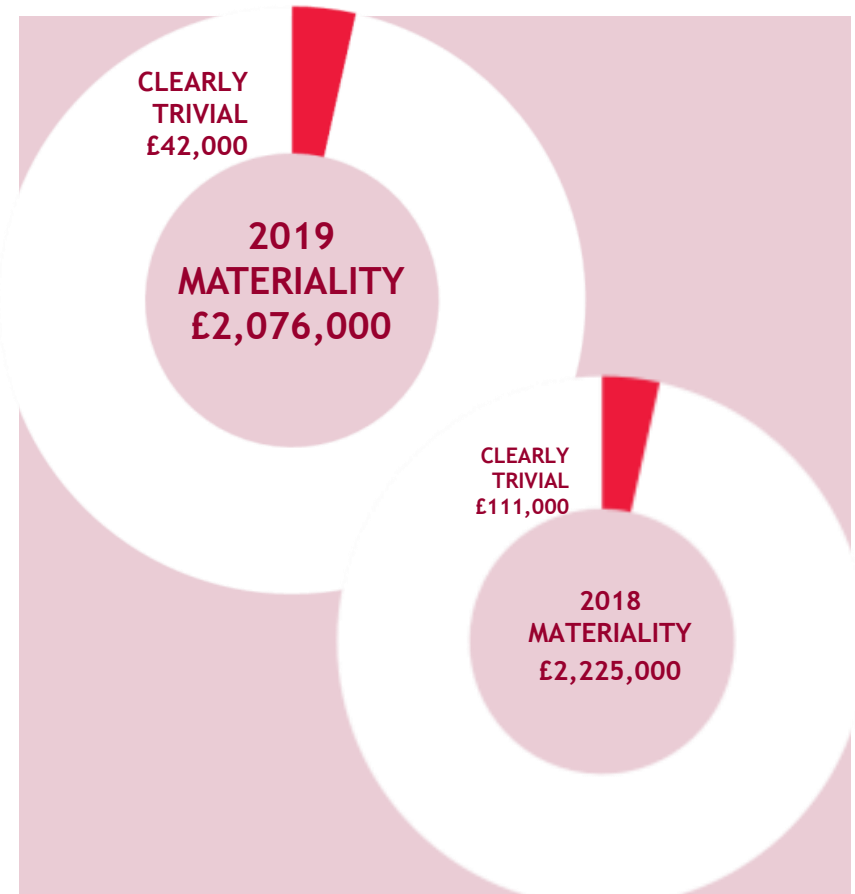
The scope of the audit is determined by the NAO's Code of Audit Practice that sets out what local auditors are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. This includes: auditing the financial statements; reviewing the arrangements to secure value for money through the economic, efficient and effective use of its resources; and, where appropriate, exercising the auditor's wider reporting powers and duties.

Our approach is designed to ensure we obtain the requisite level of assurance in accordance with applicable laws, appropriate standards and guidance issued by the NAO.

### Materiality

Planning materiality for the Council will be set at 1.75% of gross expenditure for the year. At this stage, the figure is based on the prior year financial statements. This will be revisited when the draft financial statements are received for audit.

Although materiality is the judgement of the engagement lead, the Audit Committee is obliged to satisfy themselves that the materiality chosen is appropriate for the scope of the audit.



# AUDIT STRATEGY

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Our Audit Strategy is predicated on a risk based approach, so that audit work is focused on the areas of the financial statements where the risk of material misstatement is assessed to be higher, or where there is a risk that the organisation has not made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Our starting point is to document our understanding of the Council and its business and the specific risks it faces. We review the predecessor auditor's prior year audit file and we discuss with management any changes to the business and management's own view of potential audit risk, to gain an understanding of the Council's activities and to determine which risks impact on our audit. We will continue to update this assessment throughout the audit.

For the financial statements audit, we also confirm our understanding of the accounting systems in order to ensure their adequacy as a basis for the preparation of the financial statements, related controls, and that proper accounting records have been maintained.

A lower level of materiality is applied to the areas of the financial statements that are considered to be sensitive, such as senior management remuneration disclosures, auditor's remuneration disclosures and related party disclosures.

We then carry out our audit procedures in response to audit risks.

The table on the next page summarises our planned approach to audit risks identified.

# AUDIT RISK OVERVIEW

## Executive summary

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Risk identified - Financial statements	Risk rating	Fraud risk present	Testing approach	Impact of significant judgements and estimates
Management override of controls	Significant	Yes	Substantive	Medium
Revenue (and expenditure) recognition	Significant	Yes	Substantive	Medium
Property, Plant & Equipment and Investment Property valuation	Significant	No	Substantive	High
Valuation of pension assets and liabilities	Significant	No	Substantive	High
Related party transactions	Normal	No	Substantive	Low
Risk identified - Use of resources				
Sustainable resource deployment	Significant	N/A	Detailed review	N/A





# INDEPENDENCE AND FEES

## Executive summary



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### Independence

We confirm that the firm complies with the Financial Reporting Council’s Ethical Standard for Auditors and, in our professional judgement, is independent and objective within the meaning of those Standards.

### Fees

	2018/19
	£
Code audit fees	45,205
<b>Total audit and certification fees</b>	<b>45,205</b>
<b>Non audit fees</b>	
Certification fee (Housing Benefit Subsidy certification)	(1) 7,000
Fee for agreed upon procedures in respect of pooled housing capital receipts return	2,500
<b>Non audit fees</b>	<b>9,500</b>
<b>Total fees</b>	<b>54,705</b>

(1) The certification fee for Housing Benefit subsidy is on the basis that the Council performs the initial testing and we will re-perform. This also assumes three or less 40+ detailed testing during the year.

### Amendments to the proposed fees

If we need to propose any amendments to the fees during the course of the audit, where our assessment of risk and complexity are significantly different from those reflected in the proposed fee or where we are required to carry out work in exercising our additional powers and duties, we will first discuss this with the Council.

Where this requires a variation to the scale fee set by PSAA we will seek approval from PSAA. If necessary, we will also prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee. At this stage, nothing has come to our attention that would require us to seek approval to amend the scale fee.

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Key components of our audit objectives and strategy for the Council are highlighted and explained on the following pages.

Audit planning is a collaborative and continuous process and our audit strategy, as reflected here, will be reviewed and updated as our audit progresses.

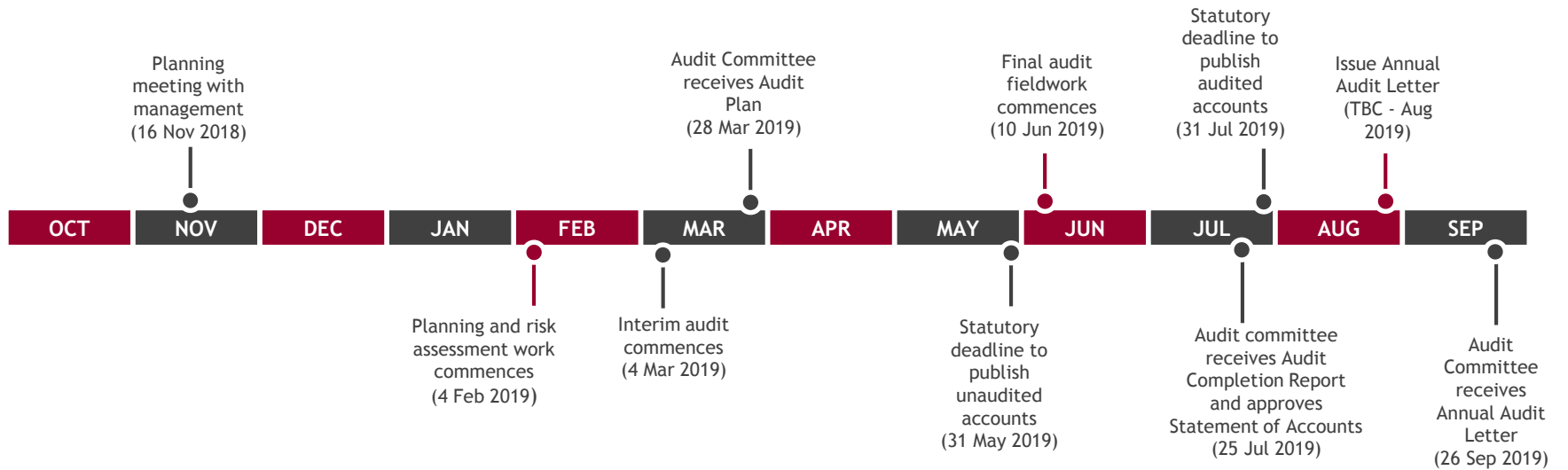
We will communicate any significant changes to our audit strategy, should the need for such change arise.

Reporting	Objectives
Auditing standards	We will perform our audit in accordance with International Standards on Auditing UK (ISAs (UK)) and relevant guidance published by the NAO.
Financial statements	We will express an opinion on the Council’s financial statements, prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting 2018/19 and other directions.
Statement of Accounts	In addition to our objectives regarding the financial statements, we will also read and consider the other information contained in the Statement of Accounts to consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.
Use of resources	We will report where we consider that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
Additional powers and duties	Where necessary we may be required to: issue a report in the public interest; make a written recommendation to the Council; allow local electors to raise questions and objections on the accounts; or exercise legal powers to apply to the courts for a declaration that an item of account is contrary to law, issue an advisory notice or an application for a judicial review.
Report to the Audit Committee	Prior to the approval of the financial statements, we will discuss our significant findings with the Audit Committee. We will highlight key accounting and audit issues as well as internal control findings and any other significant matters arising from the audit.



# AUDIT TIMELINE

An overview of the key dates



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# BDO TEAM

## Team responsibilities



**Aphrodite Lefevre**  
Director

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As the engagement lead I have primary responsibility to ensure that the appropriate audit opinion is given. In meeting this responsibility I ensure that the audit has resulted in obtaining sufficient and appropriate evidence to provide reasonable, but not absolute, assurance that the financial statements are free from material misstatement, whether due to fraud or error, and to report on the financial statements and communicate as required by the ISAs (UK), in accordance with our findings.

I am responsible for the overall quality of the engagement and am supported by the rest of the team as set out here.



**Nuwan Indika**  
Manager

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e: Nuwan.Indika@bdo.co.uk

I will lead on the audit of the Council.

I work closely with Aphrodite to develop and execute the audit strategy. I will be a key point of contact on a day to day basis for the Council and will ensure that timelines are carefully managed to ensure that deadlines are met and matters to be communicated to Management and the Audit Committee are highlighted on a timely basis.

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# OVERVIEW

We have assessed the following as financial statements audit risks. These are matters assessed as most likely to cause a material misstatement in the financial statements and include those that will have the greatest effect on audit strategy, the allocation of audit resources and the amount of audit focus by the engagement team.

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Description of risk	Significant risk	Normal risk	Overview of risk
1. Management override of controls			ISA (UK) 240 presumes that management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
2. Revenue (and expenditure) recognition			Under auditing standards there is a presumption that income recognition presents a fraud risk. For the Council, the risks can be identified as affecting the existence (recognition) and accuracy of revenue and capital grants that are subject to performance conditions and fees and charges.  There is also a risk of manipulation of expenditure recognition by inappropriately deferring expenditure by including expenditure in the following year.
3. Property, Plant & Equipment and Investment Property valuation			There is a risk over the valuation of land, buildings, dwellings and investment properties where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at year-end.
4. Valuation of pension assets and liabilities			There is a risk the valuation is not based on appropriate membership data where there are significant changes or uses inappropriate assumptions to value the assets and liabilities.
5. Related party transactions			There is a risk that related party disclosures are not complete and in accordance with the Code of Practice on Local Authority Accounting requirements.

# MANAGEMENT OVERRIDE OF CONTROLS

**ISA (UK) 240 presumes that management is in a unique position to perpetrate fraud.**

## Risk detail

ISA (UK) 240 - The auditor's responsibilities relating to fraud in an audit of financial statements requires us to presume that the risk of management override of controls is present and significant in all entities.

## Planned audit approach

Our audit procedures will include the following:

- Review and verification of unusual/high risk journal entries made in the year, agreeing the journals to supporting documentation. We will determine key risk characteristics to filter the population of journals. We will use our IT team to assist with the journal extraction;
- Review of estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias;
- Obtain an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual; and
- Review of unadjusted audit differences for indications of bias or deliberate misstatement.

Significant risk

Normal risk

Fraud risk

Assess design & implementation of controls to mitigate

Significant Management estimates & judgements

Controls testing approach

Substantive testing approach



# REVENUE (AND EXPENDITURE) RECOGNITION

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**Under auditing standards there is a presumption that income recognition presents a fraud risk.**

- Significant risk
- Normal risk
- Fraud risk
- Assess design & implementation of controls to mitigate
- Significant Management estimates & judgements
- Controls testing approach
- Substantive testing approach

## Risk detail

Under auditing standards there is a presumption that income recognition presents a fraud risk. For local authorities, the risks can be identified as affecting the existence (recognition) and accuracy of income.

We consider there to be a significant risk in respect of the existence and accuracy of revenue and capital grants that are subject to performance conditions before these may be recognised as revenue in the comprehensive income and expenditure statement (CIES). We also consider there to be a significant risk in respect of the existence of fees and charges income.

In the public sector the risk of fraud in revenue recognition is modified by Practice Note 10 issued by the Financial Reporting Council. This states that auditors should also consider the risk that material misstatements may occur through the manipulation of expenditure recognition. This risk is identified as being relevant to cut-off of expenditure, where testing will be focussed.

## Planned audit approach

Our audit procedures will include the following:

- Test an increased sample of grants included in income to documentation from grant paying bodies and check whether recognition criteria have been met; and
- Test an increased sample of fees and charges to ensure they have been recorded in the correct period and to ensure that all income that has been recorded are valid income.
- Test an increased sample of expenditure either side of year end, to confirm that expenditure has been recorded in the correct period and that all expenditure that should have been recorded at year end has been.



# PROPERTY, PLANT & EQUIPMENT AND INVESTMENT PROPERTY VALUATION

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**There is a risk over the valuation of land, buildings, dwellings and investment properties where valuations are based on significant assumptions.**

- Significant risk
- Normal risk
- Fraud risk
- Assess design & implementation of controls to mitigate
- Significant Management estimates & judgements
- Controls testing approach
- Substantive testing approach

## Risk detail

Local authorities are required to ensure that the carrying value of land, buildings, dwellings and investment properties is not materially different to the current value (operational assets) or fair value (surplus assets, assets held for sale and investment properties) at the balance sheet date.

The Council applies an annual revaluation process under which the assets that had significant change in value during the year are subject to full revaluation and all other assets are revalued on a desktop basis. All assets are subject to full revaluation at least every 5 years.

Due to the significant value of the Council's land, buildings, dwellings and investment properties and the high degree of estimation uncertainty, there is a risk over the valuation of these assets where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at the year-end.

## Planned audit approach

Our audit procedures will include the following:

- Review the instructions provided to the valuer and review the valuer's skills and expertise in order to determine if we can rely on the management expert;
- Confirm that the basis of valuation for assets valued in year is appropriate based on their usage;
- Review accuracy and completeness of asset information provided to the valuer such as rental agreements and sizes; and
- Review assumptions used by the valuer for reasonableness and movements against relevant indices for similar classes of assets and follow up valuation movements that appear unusual.



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**There is a risk the membership data and cash flows used by the actuary in the roll-forward valuation may not be correct, or the valuation uses inappropriate assumptions to value the assets and liabilities.**

Significant risk	
Normal risk	
Fraud risk	
Assess design & implementation of controls to mitigate	
Significant Management estimates & judgements	
Controls testing approach	
Substantive testing approach	

## Risk detail

The net pension liability comprises the Council's share of the market value of assets held in the Essex Pension Fund and the estimated future liability to pay pensions.

An actuarial estimate of the pension liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the roll forward of membership data from the 2016 triennial valuation exercise, updated at 31 March 2019 for factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability. There is a risk the valuation is not based on appropriate membership data where there are significant changes or uses inappropriate assumptions to value the liability.

The investment portfolio of the Pension Fund includes a significant proportion of assets the valuation of which may be subject to a significant level of assumption and estimation, and valuations may not be based on observable market data (for example, unquoted private equity, debt, infrastructure, timberlands and direct property investments). Due to the significance of these valuations, even a small change in assumptions and estimates could have a material impact on the overall valuation. There is a risk that valuation of pension assets may be based on inappropriate assumptions and estimates, and the share of assets allocated to the Council may not be accurate.

## Planned audit approach

Our audit procedures will include the following:

- Review skills and expertise of the actuary in order to determine if we can rely on the management expert;
- Review the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data;
- Check whether any significant changes in membership data have been communicated to the actuary;
- Obtain assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary;
- Obtain assurance from the auditor of the pension fund over the reasonableness of the valuation of pension fund assets at 31 March 2019;
- Review the percentage of assets allocated to the Council at 31 March 2019 (of the total Pension Fund assets) against the percentage of assets allocated at 31 March 2017, following the 2016 triennial valuation; and
- Agree the disclosures to the information provided by the pension fund actuary.

# RELATED PARTY TRANSACTIONS

**There is a risk that related party disclosures are not complete and in accordance with the Code of Practice on Local Authority Accounting 2018/19 requirements.**

- Significant risk
- Normal risk
- Fraud risk
- Assess design & implementation of controls to mitigate
- Significant Management estimates & judgements
- Controls testing approach
- Substantive testing approach

## Risk detail

Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud. Our audit approach includes the consideration of related party transactions throughout the audit including making enquiries of management and the Audit Committee.

There is a risk that related party disclosures are not complete and in accordance with the Code of Practice on Local Authority Accounting requirements.

## Planned audit approach

Our audit procedures will include the following:

- Review management processes and controls to identify and disclose related party transactions;
- Review relevant information concerning any such identified transactions;
- Discuss with management and review councillors’ and management declarations to ensure that there are no potential related party transactions which have not been disclosed; and
- Undertake Companies House searches for potential undisclosed interests.

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# OVERVIEW

We have assessed the following as use of resources audit risks. These are the matters assessed as most likely to impact on our use of resources conclusion and include those that will have the greatest effect on audit strategy, the allocation of audit resources and the amount of audit focus by the engagement team.

Description of risk	Significant risk	Normal risk	Overview of risk
1. Sustainable resource deployment			Government continues to reduce funding for local government, and this combined with additional pressures arising from demographic and other changes, will have a significant impact on the financial resilience of the Council in the medium term.

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# SUSTAINABLE RESOURCE DEPLOYMENT

**The Council will need to deliver significant savings to maintain financial sustainability in the medium term and there is a risk that these savings may not be delivered.**

Significant risk  
Normal risk  
Fraud risk  
Assess design & implementation of controls to mitigate  
Significant Management estimates & judgements  
Controls testing approach  
Detailed review

## Risk detail

Government continues to reduce funding for local government, and this combined with additional pressures arising from demographic and other changes, will have a significant impact on the financial resilience of the Council in the medium term.

The 2018/19 budget monitoring shows that at the end of December 2018 the actual financial results are behind the profiled budget by £2.863m, although this is largely due to timing differences of income and expenditure. It is anticipated that any adverse issues will be offset by favourable variances elsewhere within the overall budget at the end of the year.

During the last financial year the Council introduced a new long term approach to budgeting/forecast under which a long term financial forecast is prepared for a ten year period which is updated on a regular basis. The most recent forecast in February 2019 shows a cumulative budget gap of £1.363m by 2022/23 and a budget surplus has been forecasted for the remaining years to 2026/27. The 2019/20 budget assumes savings required of £328k and the remaining years assume savings of £300k per year, some of which are yet to be identified. These savings targets are significant and achievement of these inherently challenging.

## Planned audit approach

Our audit procedures will include the following:

- Review the assumptions used in the long term financial forecast and assess the reasonableness of the cost pressures and the amount of Government grant reductions applied;
- Monitor the delivery of the budgeted savings in 2018/19 and review the plans to reduce services costs and increase income from 2019/20 by reviewing a sample of savings plans; and
- Review the strategies to close the budget gap after 2019/20.

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# OTHER MATTERS REQUIRING FURTHER DISCUSSION

## Fraud

Whilst the Audit Committee as those charged with governance have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit approach includes the consideration of fraud throughout the audit and includes making enquiries of management and those charged with governance.

We have not been made aware of any actual alleged or suspected incidences of fraud. We request confirmation from the Audit Committee on fraud and a discussion on the controls and processes in place to ensure timely identification and action.

## Predecessor auditors

We have reviewed the work performed by the predecessor auditor. We have concluded that we can rely on the predecessor auditors work and no additional audit procedures are required to be performed on the comparatives.

## Significant estimates

We will report to you on significant estimates.

We will seek to understand and perform audit testing procedures on accounting estimates and judgements including consideration of the outcome of historic judgements and estimates. We will report to you our consideration of whether Management estimates and judgements are within an acceptable range.

## Internal audit

We will ensure that we maximise the benefit of the overall audit effort carried out by internal audit and ourselves, whilst retaining the necessary independence of view.

We plan to review the audit work of the Council’s internal audit function and anticipate that we will be able to place reliance on their work in respect of their assessment of some control processes. If as a result of our review, we conclude that reliance is not possible, we will report this to you and also perform alternative procedures.

## Laws and regulations

We will consider compliance with laws and regulations. These include VAT legislation and Employment Taxes. We will make enquiries of Management and review correspondence with the relevant authorities. Specialist teams within BDO will review VAT and employment tax compliance.

## Accounting policies

We will report to you on significant qualitative aspects of your chosen accounting policies. We will consider the consistency and application of the policies and we will report to you where accounting policies are inconsistent with the CIPFA code under the circumstances.

## Financial statement disclosures

We will report to you on the sufficiency and content of your financial statement disclosures.

## Any other matters

We will report to you on any other matters relevant to the overseeing of the financial reporting process. Where applicable this includes why we consider a significant accounting practice that is acceptable under the financial reporting framework not to be the most appropriate.

# CHANGES TO ACCOUNTING STANDARDS

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## Classification and measurement of financial instruments (IFRS 9)

- IFRS 9 financial instruments has been implemented for 2018/19 and requires all relevant financial instrument assets (principally investments and loans provided to others) and liabilities (principally borrowing) to be categorised under new criteria based on their business model and contractual cash flows that will determine their classification and basis of valuation.
- CIPFA has published guidance to assist with the required review and any restatement required where the classification needs to be amended. Our initial review of investments and borrowings suggests that there are unlikely to be material restatements required for the Council.
- The Council will need to undertake a review of all relevant assets and liabilities to determine the appropriate classification in the financial statements. There is a risk that relevant financial assets and liabilities are not classified and measured in accordance with the new accounting standard.

## Revenue from contracts with customers (IFRS 15)

- IFRS 15 revenue from contracts with customers has been implemented for 2018/19 and requires all relevant revenue streams to be reviewed under a new '5-step model' to determine the appropriate point at which revenue can be recognised.
- CIPFA has published guidance to assist with the required review including what revenue falls within IFRS 15 or IPSAS 23 revenue from non-exchange transactions, and the process for determining the correct recognition points and amounts for revenue. Our initial review of revenue streams for local authorities suggests that there are unlikely to be material restatements required for the Council.
- The Council will need to undertake a review of all relevant revenue streams to determine the appropriate recognition date and amounts in the financial statements. There is a risk that relevant revenue streams are not recognised in the financial statements in accordance with the new standard.

## Impact on our audit

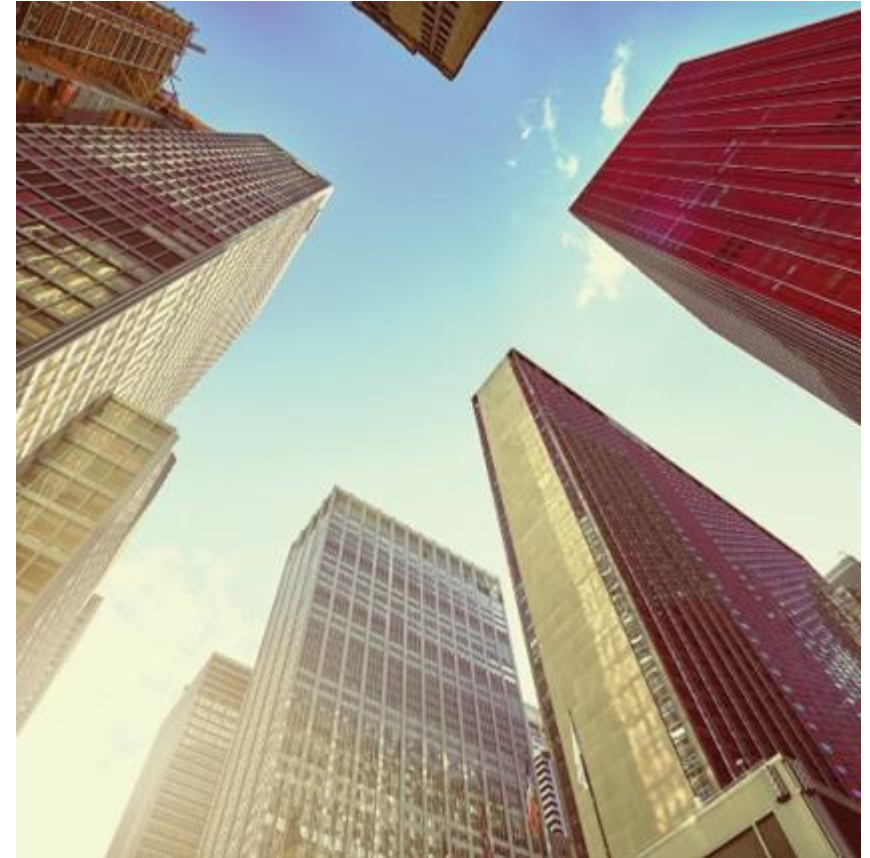
- From our initial review it seems unlikely that these changes will lead to a material restatement for the Council. As the projected impact is immaterial this has not been considered as a risk for the purpose of our audit, but substantive testing will be carried out over the disclosures to ensure that they satisfy the requirements.

# IT GENERAL CONTROLS

IT General Controls (ITGCs) are the policies and procedures that relate to many IT applications and support the effective functioning of application controls by helping to ensure the continued proper operation of information systems. They commonly include controls over data centre and network operations; system software acquisition, change and maintenance; access security; and application system acquisition, development, and maintenance.

ITGCs are an important component in systems of internal control, and sometimes have a direct impact on the reliability of other controls.

IT assurance is embedded in our audit strategy to ensure the IT systems provide a suitable platform for the control environment and is undertaken in conjunction with our IT Assurance team. Our testing strategy includes a tailored range of data analytics, system configuration and IT environment testing.



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**Under ISAs (UK) and the FRC’s Ethical Standard we are required, as auditors, to confirm our independence.**

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ending 31 March 2019.

Details of services other than audit, provided by us to the Council during the period and up to the date of this report, together with relevant fees, are set out on page 23.

Details of rotation arrangements for key members of the audit team and others involved in the engagement are set out in the appendices.

We have not identified any relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC’s Ethical Standard and are independent of the Council.

We also confirm that we have obtained confirmation from external audit experts involved in the audit that they comply with relevant ethical requirements including the FRC’s Ethical Standard and are independent of the Council.

Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.



# SUMMARY

Fees summary for year ending 31 March 2019

	2018/19 £	2017/18 £
Code audit fees	45,205	58,708
<b>Total audit and certification fees</b>	<b>45,205</b>	<b>58,708</b>
<b>Non audit fees</b>		
Certification fee (Housing Benefit Subsidy certification)	7,000	16,025
Fee for agreed upon procedures in respect of pooled housing capital receipts return	2,500	2,800
<b>Non audit fees</b>	<b>9,500</b>	<b>18,825</b>
<b>Total fees</b>	<b>54,705</b>	<b>77,533</b>



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# COUNCIL’S RESPONSIBILITIES

## The Council’s Responsibilities and Reporting

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### Financial reporting

The Council is expected to have effective governance arrangements to deliver its objectives. To this end, the publication of the financial statements is an essential means by which the Council accounts for its stewardship and use of the public money at its disposal.

The form and content of the Council’s financial statements should reflect the requirements of the relevant accounting and reporting framework in place and any applicable accounting standards or other direction under the circumstances.

The Council is also required to prepare schedules or returns to facilitate the preparation of consolidated accounts such as HM Treasury’s Whole of Government Accounts.

The Section 151 Officer is responsible for preparing and filing an Statement of Accounts and financial statements which show a true and fair view in accordance with CIPFA Code of Practice on Local Authority Accounting 2018/19, applicable accounting standards or other direction under the circumstances.

Our audit of the financial statements does not relieve management nor those charged with governance of their responsibilities for the preparation of the financial statements.

### Use of resources

Councils are required to maintain an effective system of internal control that supports the achievement of their policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at their disposal.

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement.

In preparing its governance statement, the Council will tailor the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on their arrangements for securing value for money from their use of resources.

# OUR RESPONSIBILITIES

## Responsibilities and reporting

### Our responsibilities and reporting - financial statements

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on the Council's financial statements. We report our opinion on the financial statements to the members of the Council.

We read and consider the 'other information' contained in the Annual Report such as the additional narrative reports. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

### Our responsibilities and reporting - use of resources

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

This means that we have regard to relevant guidance issued by the NAO and undertake sufficient work to be able to satisfy ourselves as to whether the Council has put arrangements in place that support the achievement of value for money.

### What we don't report

Our audit is not designed to identify all matters that may be relevant to the Council and the Audit Committee and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.



# COMMUNICATION WITH YOU

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## Those charged with governance

References in this report to Those Charged With Governance are to the Council as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Audit Committee.

## Communication, Meetings and Feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered. We will meet with management throughout the audit process. We will issue regular updates and drive the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

## Planning Report

The Planning Report sets out all planning matters which we want to draw to your attention including audit scope, our assessment of audit risks and materiality.

## Internal Controls

We will consider internal controls relevant to the preparation of financial statements in order to design our audit procedures and complete our work. This is not for the purpose of expressing an opinion on the effectiveness of internal control.

## Audit Completion Report

At the conclusion of the audit, we will issue an Audit Completion Report to communicate to you key audit findings before concluding our audit opinion. We will include any significant deficiencies in internal controls which we identify as a result of performing audit procedures. We will meet with you to discuss the findings and in particular to receive your input on areas of the financial statements involving significant estimates and judgements and critical accounting policies.

Once we have discussed the contents of the Audit Completion Report with you and having resolved all outstanding matters we will issue a final version of the Report.

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These tables indicate the latest rotation periods normally permitted under the independence rules for the terms of appointment by PSAA.

In order to safeguard audit quality we will employ a policy of gradual rotation covering the team members below as well as other senior members of the engagement team to ensure a certain level of continuity from year to year.

### Independence - engagement team rotation

Senior team members	Number of years involved	Rotation to take place before
Aphrodite Lefevre Engagement Lead	1	31 March 2023 (5 years)
Nuwan Indika Audit Manager	1	31 March 2028 (10 years)

# MATERIALITY: DEFINITION AND APPLICATION

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## Concept and definition

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Materiality therefore has qualitative as well as quantitative aspects and an item may be considered material, irrespective of its size, if it has an impact on (for example):

- Narrative disclosure e.g. accounting policies, going concern
- Instances when greater precision is required (e.g. senior managers remuneration and related party transactions).

International Standards on Auditing (UK) also allow the auditor to set a lower level of materiality for particular classes of transaction, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

## Calculation and determination

We have determined materiality based on professional judgement in the context of our knowledge of the entity, including consideration of factors such as industry developments, financial stability and reporting requirements for the financial statements.

We determine materiality in order to:

- Assist in establishing the scope of our audit engagement and audit tests
- Calculate sample sizes
- Assist in evaluating the effect of known and likely misstatements on the Group financial statements.

## Reassessment of materiality

We will reconsider materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality if we had been aware.

Further, when we have performed all our tests and are ready to evaluate the results of those tests (including any misstatements we detected) we will reconsider whether materiality combined with the nature, timing and extent of our auditing procedures, provided a sufficient audit scope.

# MATERIALITY: DEFINITION AND APPLICATION



If we conclude that our audit scope was sufficient, we will use materiality to evaluate whether uncorrected misstatements (individually or in aggregate) are material.

You should be aware that any misstatements that we identify during our audit, both corrected and uncorrected errors, might result in additional audit procedures being necessary.

## Unadjusted errors

We will communicate to you all uncorrected misstatements identified during our audit, other than those which we believe are ‘clearly trivial’.

Clearly trivial is defined as matters which will be of a wholly different (smaller) order of magnitude than the materiality thresholds used in the audit, and will be matters that are clearly inconsequential, whether taken individually or in aggregate.

We will obtain written representations from the Audit Committee confirming that in their opinion these uncorrected misstatements are immaterial, both individually and in aggregate and that, in the context of the financial statements taken as a whole, no adjustments are required.

We will request that you correct all uncorrected misstatements. In particular we would strongly recommend correction of errors whose correction would affect compliance contractual obligations or governmental regulations. Where you choose not to correct all identified misstatements we will request a written representation from you setting out your reasons for not doing so and confirming that in your view the effects of any uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as whole.

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### BDO’s audit quality cornerstones underpin the firm’s definition of audit quality.

BDO is committed to audit quality. It is a standing item on the agenda of the Leadership Team, who in conjunction with the Audit Stream Executive, monitors the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections. We welcome feedback from external bodies and are committed to implementing necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external regulators, the firm undertakes a thorough annual internal Audit Quality Assurance Review and as a member firm of BDO International network we are also subject to a quality review visit every three years. We have also implemented additional quality control review processes for all listed and public interest entities.

More details can be found in our Transparency Report at [www.bdo.co.uk](http://www.bdo.co.uk)



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The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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## AUDIT COMMITTEE

28 MARCH 2019

### REPORT OF DEPUTY CHIEF EXECUTIVE

#### A.4 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

- 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.
- There are usually two appendices to this report – 1) updates against general issues previously identified by the Committee and 2) updates against the Annual Governance Statement that the Committee agreed at its 26 July 2018 meeting.
- As there are no outstanding actions in respect of general issues identified by the Committee, only updates against the Annual Governance Statement are included. **(Appendix A)**
- To date there are no significant issues arising from the above, with work remaining in progress or updates provided elsewhere on the agenda where appropriate.

###### 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

The Table of Outstanding Issues has been reviewed and updated since it was last considered by the Committee at its 24 January 2019 meeting.

An update against actions relating to the Annual Governance Statement is set out in **Appendix A.**

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 outstanding items.

### BACKGROUND PAPERS FOR THE DECISION

None

### APPENDICES

**Appendix A** - Table of Outstanding Issues (March 2019) - Annual Governance Statement Actions

## AUDIT COMMITTEE - Table of Outstanding Issues (March 2019) – ANNUAL GOVERNANCE STATEMENT ACTIONS

Governance Issue	Action	Current Position / Update
<p><b>Managing risks and performance through robust internal control and strong public financial management</b></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"> <li>• Ensuring the robustness of assumptions used in financial planning/forecasting.</li> <li>• Prioritising resources whilst maintaining services wherever possible.</li> <li>• Develop a new way of reporting progress against the new long term forecast including an assessment of risk.</li> <li>• Delivery a balanced budget in 2019/20 in-line with the forecast.</li> </ul>	<p>A revised approach to reporting the progress against the new long term forecast has been developed with reports presented to Cabinet on a quarterly basis throughout 2018/19.</p> <p>The report brings together a number of strands of financial information in to one place. Detailed estimates and a comprehensive outturn position will continue to be reported to Members in February and May respectively each year.</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>The detailed estimates for 2019/20 based on the revised approach adopted were agreed by Full Council in February 2019.</p> <p>Work remains in progress to deliver the next year of the long term forecast with two key areas being the identification of on-going savings and managing on-going cost pressures.</p>
<p><b>Implementing good practices in transparency, reporting, and audit to deliver effective accountability</b></p> <p><b>Developing the entity's capacity, including the capacity of its leadership and the individuals within it</b></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>This action is nearing completion in terms of rolling out a revised business planning / project management approach as early as possible in 2019/20. The work carried out to date has been supported by the Acting Audit and Governance Manager and reflects the key elements of the recently approved Treasury and Capital Strategy and peer review recommendations.</p>

<p>Council continuing to demonstrate Value for Money in the use of its resources and delivery of major projects, for example, Garden Communities and Jaywick Sands.</p>	<p>To enhance the business planning process to ensure mandates are 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><b>Developing the entity's capacity, including the capacity of its leadership and the individuals within it</b></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"> <li>• Digital</li> <li>• Customer Service/channel shift</li> <li>• Office Accommodation</li> <li>• People</li> </ul>	<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 are in operation and 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>Reporting the delivery of outcomes / benefits will also form part of the new project management approach highlighted above.</p>
<p><b>Developing the entity's capacity, including the capacity of its leadership and the</b></p>	<p>Embed and develop the new Committee Structure during</p>	<p>The new structure is fully operational and a number of meetings (including task and finish groups) have been</p>

<p><b>individuals within it</b></p> <p>The Council's Committee Structure is reducing to two Overview and Scrutiny Committees focusing on external and internal arrangements</p>	<p>2018/19.</p>	<p>held this year. A review of the new arrangements is planned to commence in November this year.</p>
<p><b>Managing risks and performance through robust internal control and strong public financial management</b></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 has been developed which is monitored by the Council's Governance and Policy Group.</p>
<p><b>Determining the interventions necessary to optimise the achievement of the intended outcomes</b></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 will be presented to Cabinet on a regular basis, the latest being considered by them at their 9 November 2018 meeting.</p>

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## AUDIT COMMITTEE

28 MARCH 2018

### REPORT OF DEPUTY CHIEF EXECUTIVE

#### A.5 AUDIT COMMITTEE WORK PROGRAMME 2019/20 (Report prepared by Richard Barrett)

#### PART 1 – KEY INFORMATION

##### **PURPOSE OF THE REPORT**

To present for approval the Audit Committee's proposed work programme covering the period April 2019 to March 2020.

##### **EXECUTIVE SUMMARY**

A work programme covering the period April 2019 to March 2020 has been prepared which reflects the significant element of regulatory / statutory activity required along with other associated work which falls within the responsibilities of the Audit Committee.

##### **RECOMMENDATIONS**

**That the Audit Committee considers and approves the Audit Committee Work programme for 2019/20.**

#### 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 the Corporate priorities supported by effective management and forward planning within this overall framework.

##### **FINANCE, OTHER RESOURCES AND RISK**

###### **Finance and other resources**

Although there are no significant financial implications associated with the work programme of the Committee, additional officer time or resources may be required to support the activities of the Committee and existing budgets will be reviewed as appropriate if the potential for additional costs arises.

###### **Risk**

The work programme of the Committee covers a mix of governance arrangements along with statutory and regulatory functions. The work programme aims to address these areas of responsibility within related timescales and deadlines to support, protect and enhance the Council's reputation and governance framework.

##### **LEGAL**

Statutory and regulatory requirements have been recognised within the work programme.

## 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.**

The work programme has no direct impact on these issues although they could feature within areas of work falling within the remit of the Audit Committee in future which would be addressed specifically as and when they arise.

## PART 3 – SUPPORTING INFORMATION

### PROPOSED WORK PROGRAMME 2019/20

The Audit Committee has a wide ranging area of responsibility with statutory and regulatory functions making up a significant element of their work. The meetings of the Committee are scheduled around a quarterly basis subject to the work required of the Committee to support the statutory and regulatory timescales and deadlines. The Audit Committee's work programme therefore needs to take account of various demands whilst balancing a number of activities within the planned number of meetings scheduled for the year.

In addition to the regulatory and statutory activities undertaken by the Committee such as the Statement of Accounts, Corporate Governance and Risk Management, the Committee are also required to review and scrutinise:

- The work and performance of the Internal Audit function;
- The outcomes from the work of the Council's External Auditor;
- Progress against audit recommendations and other items identified by the Committee.

During the year other matters apart from those set out above may be presented to the Committee for consideration. Given the on-going regulatory and statutory workload and the various additional activities undertaken by the Committee, any additional items that may arise will need to be considered against the proposed work programme and included for reporting at the appropriate meeting, or considered for inclusion in subsequent work programmes.

Although not included in the formal work programme, it is recognised that the Committee may wish to develop training opportunities, which can be considered during the year. Such opportunities will either form part of future meetings or, where necessary, separate arrangements made.

Taking into account the responsibilities of the Audit Committee as highlighted above the proposed work programme covering the period from April 2019 up to and including March 2020 is set out in **Appendix A**.

As the year progresses, it may be necessary to review items as some reports / activities and associated timescales may be subject to change. As appropriate the Chair of the Committee will be consulted on any significant changes if required.

<b>BACKGROUND PAPERS FOR THE DECISION</b>
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None
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<b>APPENDICES</b>
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<b>APPENDIX A</b> – Audit Committee Work Programme 2019/20
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**A5 APPENDIX A**

**Audit Committee Work Programme 2019/20**

<b>Audit Committee Meeting</b>	<b>Item</b>	<b>From</b>
<b>July 2019</b>	Annual Report of the Head of Internal Audit 18/19	Internal Audit
	Internal Audit Regular Monitoring Report <i>(Including review of Internal Audit Charter)</i>	Internal Audit
	Audit Completion Report 2018/19  (Including Statement of Accounts 2018/19, Annual Governance Statement 2018/19 and outcomes from the annual review of the Council's Code of Corporate Governance)	External Audit / Deputy Chief Executive
	Corporate Risk Update	Deputy Chief Executive
	Table of Outstanding Issues <i>(Including update against External Audit Recommendations and Annual Governance Statement Actions)</i>	Deputy Chief Executive
<b>September 2019</b>	Internal Audit Regular Monitoring Report	Internal Audit
	Annual Review of the Risk Based Verification Policy	Deputy Chief Executive
	Anti-Fraud and Corruption Strategy – Annual Review  <i>(Including sanction / prosecution policies where relevant)</i>	Deputy Chief Executive
	Annual Audit Letter 2018/19	External Audit
	Table of Outstanding Issues <i>(Including update against External Audit Recommendations and Annual Governance Statement)</i>	Deputy Chief Executive

	<i>Actions)</i>	
<b>January 2020</b>	Internal Audit Regular Monitoring Report	Internal Audit
	Corporate Risk Update	Deputy Chief Executive
	Table of Outstanding Issues <i>(Including update against External Audit Recommendations and Annual Governance Statement Actions)</i>	Deputy Chief Executive
<b>March 2020</b>	Internal Audit Regular Monitoring Report	Internal Audit
	Internal Audit Plan 2020/21 <i>(Including annual review of Internal Audit Charter)</i>	Internal Audit
	External Audit - Audit Plan for Year Ending March 2020	External Audit
	Certification of Claims and Returns Annual Report 2018/19	External Audit / Deputy Chief Executive
	Audit Committee's Work Programme 2020/21	Deputy Chief Executive
	Table of Outstanding Issues <i>(Including update against External Audit Recommendations and Annual Governance Statement Actions)</i>	Deputy Chief Executive

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