



AUDIT COMMITTEE

DATE:	Thursday, 16 March 2017
TIME:	7.30 pm
VENUE:	Council Chamber, Council Offices, Thorpe Road, Weeley, CO16 9AJ

MEMBERSHIP:

Councillor Coley (Chairman)
Councillor Griffiths (Vice-Chairman)

Councillor Stephenson
Councillor Poonian

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

DATE OF PUBLICATION: TUESDAY, 7 MARCH 2017

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 held on Thursday 26 January 2017 (Pages 1 - 6)

To confirm and sign as a correct record, the minutes of the last meeting of the Committee, held on Thursday 26 January 2017.

3 Declarations of Interest

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

4 Report of Head of Planning Services - A.1 - Section 106 Audit Update (Pages 7 - 10)

To present to the Committee an update in relation to the Section 106 Audit.

5 Report of Audit and Governance Manager - A.2 - Report on Internal Audit - December 2016 - February 2017 (Pages 11 - 18)

To provide the Committee with a periodic report on the Internal Audit function for the period December 2016 – mid February 2017.

6 Report of Audit and Governance Manager - A.3 - Internal Audit Charter and Internal Audit Plan 2017/18 (Pages 19 - 38)

To seek the approval of the Audit Committee for an updated Internal Audit Charter.

To seek the approval of the Audit Committee for the Internal Audit Plan for 2017/18.

7 Report of Corporate Director (Corporate Services) - A.4 - External Auditor's Audit Plan 2016/17 (Pages 39 - 60)

To present for consideration and agreement the External Auditor's Audit Plan for 2016/17.

8 Report of Corporate Director (Corporate Services) - A.5 - External Audit - Certification of Claims and Returns Annual Report 2015/16 (Pages 61 - 74)

To present the External Auditor's certification of claims and returns annual report 2015/16.

9 Report of Corporate Director (Corporate Services) - A.6 - Audit Committee Work Programme 2017/18 (Pages 75 - 80)

To present for approval the Audit Committee's proposed work programme covering the period April 2017 to March 2018.

10 Report of Corporate Director (Corporate Services) - A.7 - Table of Outstanding Issues (Pages 81 - 86)

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

11 Items Scheduled for the Next Meeting of the Committee in June 2017

Items currently scheduled for that meeting include:

- 1) Annual Report of the Audit and Governance Manager
- 2) Internal Audit Regular Monitoring Report
- 3) Annual Governance Statement (including review of the Council's Code of Corporate Governance)
- 4) Corporate Risk Update
- 5) Table of Outstanding Issues (including update against External Audit Recommendations)

Date of the Next Scheduled Meeting

The next scheduled meeting of the Audit Committee is to be held in the at Time Not Specified on Date Not Specified.

Information for Visitors

FIRE EVACUATION PROCEDURE

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

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

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Your calmness and assistance is greatly appreciated.

MINUTES OF THE MEETING OF THE AUDIT COMMITTEE HELD

ON THURSDAY 26 JANUARY 2017

AT 7.30 P.M. IN THE COUNCIL CHAMBER, COUNCIL OFFICES, WEELEY

Present: Councillors Coley (Chairman), Griffiths (Vice-Chairman), Hones and Poonian

In Attendance: Head of Finance, Revenues & Benefits Services & Section 151 Officer (Richard Barrett), Audit and Governance Manager (Steve Blake) and Committee Services Manager (Ian Ford)

Also in Attendance: Chris Hewitt (Ernst & Young – External Auditor)

19. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

An apology for absence was submitted on behalf of Councillor Stephenson (with Councillor Hones substituting).

20. MINUTES OF THE LAST MEETING

The minutes of the meeting of the Committee held on 22 September 2016 were approved as a correct record and signed by the Chairman, subject to the correction of a minor typographical error in Minute 13.

21. DECLARATIONS OF INTEREST

There were none on this occasion.

22. REPORT ON INTERNAL AUDIT – SEPTEMBER 2016 – NOVEMBER 2016

The Council's Audit and Governance Manager (Steve Blake) provided a periodic report on the Internal Audit function for the period of September 2016 to November 2016, which also set out the proposed budget for Internal Audit for 2017/18 and also the arrangements for the first stage of seeking the mandatory external review of Internal Audit.

The Audit and Governance Manager informed the Committee that 11 audits had been completed with the final report issued and 9 audits completed in the period had achieved a satisfactory level of assurance, with two exceptions (Procurement – Contractor Use and Payroll/Human Resources – Computer Application Review) receiving an "improvement required" classification.

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

- (i) Public Sector Internal Audit Standards;
- (ii) Standard 1110 Organisational Independence;
- (iii) Standard 1312 External Assessments;
- (iv) Internal Audit Plan Progress;
- (v) Emerging Key Projects;
- (vi) Fraud and Compliance Team review;
- (vii) Quality Assurance;

- (viii) Outcomes of Internal Audit Work;
- (ix) Procurement – Contractor Use;
- (x) Payroll/Human Resources – Computer Application Review; and
- (xi) Management response to Internal Audit findings.

Following discussion and questions by Members, it was:

RESOLVED that

- (a) the contents of the report be noted;
- (b) the proposed Internal Audit budget for 2017/18 be approved;
- (c) the Committee confirms its agreement to the approach to be adopted for the forthcoming external assessment of the Internal Audit function and;
- (d) the changes to the Internal Audit plan, as detailed in the report, be approved.

23. CORPORATE RISK UPDATE

There was submitted a report by the Council's Corporate Director (Corporate Services), which presented to the Committee an updated Risk Management Framework and Corporate Risk Register.

It was reported that the Risk Management Framework had been updated to reflect updated guidance on corporate governance.

It was also reported that the Corporate Risk Register was regularly updated and presented to the Committee every six months.

Members were informed that three new risks had been identified and added to the Corporate Risk Register, no risks had been removed and no risks had been amended. One risk score had been amended.

The Committee was informed of the reasons why the following three new risks had been identified and added to the Corporate Risk Register:

- (1) Risk 2i Garden Communities;
- (2) Risk 3c Health and Safety; and
- (3) Risk 3d Fraud and Corruption.

Members were further informed of the reasons that a risk score amendment had been made in respect of:

Risk 5a Financial Strategy.

Having considered and discussed the report it was:

RESOLVED that the updated Risk Management Framework and the current Corporate Risk Register be noted.

24. CODE OF CORPORATE GOVERNANCE

There was submitted a report by the Council's Corporate Director (Corporate Services), which sought approval for a new Code of Corporate Governance reflecting the requirements of the new local government framework.

Members were reminded that the current Code of Corporate Governance had been approved by the Committee at its meeting held on 25 June 2015 (Minute 5 referred). That Code had been consistent with the principles of the CIPFA/Solace Framework "Delivering Good Governance in Local Government (2007).

However, it was reported that CIPFA/Solace had published an updated framework in 2016 which was applicable to local authorities from 2016/17 onwards and therefore it had been necessary to produce a new Code of Corporate Governance that reflected the new framework.

The proposed new Code was before the Committee for consideration as Appendix A to item A.3 of the Report of the Corporate Director (Corporate Services).

Having considered and discussed the report and the proposed new Code it was:

RESOLVED that the Code of Corporate Governance, as set out in Appendix A to item A.3 of the Report of the Corporate Director (Corporate Services), be approved.

25. EXTERNAL AUDIT'S ANNUAL AUDIT LETTER 2015/16

There was submitted a report by the Council's Corporate Director (Corporate Services), which presented to the Committee the External Auditor's Annual Audit Letter 2015/16.

The Committee was informed that the Letter primarily summarised the outcomes from various audit activities undertaken during the year. The key messages set out in the letter highlighted that the Council had received an unqualified opinion on both its financial statements and value for money arrangements.

It was reported that, whilst no significant concerns had been raised relating to 2015/16, a number of points had been identified to consider in the future in addition to the overall challenge of identifying the necessary savings to meet forecasted budget gaps in 2018/19 and 2019/20 which would remain one of the top priorities for the Council in 2017/18.

The Committee had before it the Officers' responses to the points raised by the External Auditor in respect of the following:

- (a) Economic impact of the EU Referendum;
- (b) Faster closure of Accounts; and
- (c) Appointment of External Auditors.

RESOLVED that the contents of the Annual Audit Letter 2015/2016 be noted.

26. APPOINTMENT OF EXTERNAL AUDITOR FROM 2018/19

There was submitted a report by the Council's Corporate Director (Corporate Services), which set out the proposal to opt in to the Public Sector Audit Appointments (PSAA) arrangements for appointing External Auditors from 2018/19.

The Committee was reminded that, following the demise of the Audit Commission, new arrangements had been needed for the longer term appointment of external auditors and that the Local Audit and Accountability Act 2014 required the Council to, either opt in to an appointing person regime, or to establish an auditor panel and conduct their own procurement exercise once the existing contract with Ernst and Young expired.

It was reported that, as part of closing the Audit Commission, the Government had novated external audit contracts to PSAA on 1 April 2015. Those contracts were due to expire following conclusion of the audits of the 2016/17 accounts, but could be extended for a period of up to three years by PSAA, subject to approval from the Department for Communities and Local Government.

In October 2015 the Secretary of State had confirmed that the transitional provisions would be amended to allow an extension of the contracts for a period of one year. This meant that for the audit of the 2018/19 accounts it would be necessary for Authorities to either undertake their own external audit procurement process or opt in to an appointed person regime. An appointed person regime was to a large extent how the external auditors had been appointed under the previous Audit Commission arrangements.

Members were advised that there had been a degree of uncertainty around the new appointed person regime until July 2016 when PSAA had been specified by the Secretary of State as an appointing person body. The appointing person was sometimes referred to as the sector led body and PSAA had wide support across local government. PSAA had originally been established to operate the transitional arrangements following the closure of the Audit Commission and was a company owned by the Local Government Association's Improvement and Development Agency (IDeA).

The Committee was informed that an invitation to local authorities to opt in had been received from the PSAA on 27 October 2016 and a response was required by 9 March 2017. Subject to the agreement of this Committee, the recommendation to make use of the appointing person arrangements offered by PSAA would be considered by Council on 7 February 2017, as required by the Regulations.

The Committee was made aware that the main advantages of opting in to the PSAA's appointing person option was set out in its prospectus which were summarised below, namely:

- Assure timely auditor appointments;
- Manage independence of auditors;
- Secure highly competitive prices;
- Save on procurement costs;
- Save time and effort needed on auditor panels;
- Focus on audit quality; and
- Operate on a not for profit basis and distribute any surplus funds to scheme members.

Members were informed that the alternative approach of establishing an auditor panel and conducting a local procurement process would be a far more resource intensive process and without the bulk buying power of the sector led procurement it would be likely to result in a more costly External Audit service.

The Committee was advised that, via discussions with other authorities, it was understood by Officers that most (if not all) other Authorities across Essex would be opting in to the new PSAA appointing person approach.

Having considered the matter it was:

RESOLVED that the Committee recommends to Council that this Council opts in to the appointing person arrangements made by Public Sector Audit Appointments for the appointment of external auditors from 2018/19.

27. AUDIT COMMITTEE – TABLE OF OUTSTANDING ISSUES

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

It was 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.6 of the Report of the Corporate Director (Corporate Services), or elsewhere on the agenda where appropriate.

Updates against actions identified within the Annual Governance Statement 2015/16 were set out in Appendix B with no significant issues to highlight at the present time.

The Committee recalled that, at its meeting held on 22 September 2016 (Minute 13 referred), it had agreed to invite the Planning and Regeneration Portfolio Holder to the next meeting of the Committee to discuss issues relating to Section 106 agreements. However, this invite had been revised by the Head of Revenues, Benefits and Revenues Services to the March 2017 meeting of the Committee, which would provide a better opportunity to review the latest position / update from the service in terms of improvement actions undertaken.

The Head of Revenues, Benefits and Revenues Services circulated an update on HRA Impairment Charges on the land purchased in Jaywick during 2104/15 and 2015/16 following a recent HRA determination by the Government.

It was **RESOLVED** that the progress made against the outstanding issues be noted.

28. ITEMS SCHEDULED FOR THE NEXT MEETING OF THE COMMITTEE IN MARCH 2017

It was reported that items currently scheduled for that meeting included:

- 1) *Internal Audit Regular Monitoring Report*
- 2) *External Audit – Audit Plan 2016/17*
- 3) *Annual Internal Audit Plan 2017/18*
- 4) *Certification of Claims and Returns 2015/16*
- 5) *Audit Committee Work Programme 2017/18*
- 6) *Table of Outstanding Issues (including update against External Audit Recommendations)*

29. EXCLUSION OF PRESS AND PUBLIC

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

30. EXEMPT MINUTE OF THE LAST MEETING

The exempt minute of the meeting of the Committee held on 22 September 2016 was approved as a correct record and signed by the Chairman.

The meeting was declared closed at 8.25 p.m.

Chairman

AUDIT COMMITTEE

16 MARCH 2017

REPORT OF HEAD OF PLANNING

A.1 AUDIT COMMITTEE – SECTION 106 AUDIT UPDATE

(Report prepared by Catherine Bicknell)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To present to the Committee an update in relation to the Section 106 audit.

EXECUTIVE SUMMARY

- The 2014/15 audit of S106 agreements concluded that improvement was required. The high priority actions identified were in relation to the monitoring fees, monitoring of income and the collection of contributions.
- A new database has been purchased and a permanent member of staff will be recruited to address these issues.
- It is recommended that a follow-up audit of S106 agreement monitoring is undertaken once the new IT system and staffing arrangements have been in place for 9-12 months. This will allow time for the areas of concern identified in the previous audit to be addressed.

RECOMMENDATION(S)

- a) That the progress in relation to the Section 106 audit be noted; and
- b) That a follow-up audit is undertaken in March 2018.

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 recommendation in this report does not pose a risk and the actions in response to the audit referred to in this report are designed to reduce risk of loss of income.

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

S106 AUDIT FINDINGS 2014/15

The 2014/15 audit of S106 agreements concluded that improvement was required. The high priority actions identified were in relation to the monitoring fees, monitoring of income and the collection of contributions.

Monitoring fees

The audit questions whether or not monitoring fees should be collected. A High Court decision found the collection of monitoring fees to be unlawful but subsequent external legal advice suggested that the collection of fees for the drafting of agreements and the monitoring of development is lawful. Currently fees are collected from developers for both purposes

Monitoring of income

The audit identifies that there is a backlog in the monitoring of income. A report generated from the S106 database is used to identify developments that need to be checked for commencement. However, a backlog, resulting from staff changes and absences, exists in this area of work.

Collection of contributions

The audit identified that the database is not being used to identify which developments need to be monitored. However, alternative sources of information (planning permissions and building regulations approvals) are being used. The completion of S106 agreements is not affected, only their monitoring.

NEXT STEPS

The S106 database used to monitor S106 agreements is now unsupported thereby making its contents vulnerable. A new system has been purchased to reduce this risk and is being configured for implementation. It will be ready to use for S106 monitoring mid- 2017 once backfilling of data has been completed.

The new system (Exacom) has been produced by the developers of the previous database but unlike its predecessor, it is compatible with the Council's back office Planning system (Uniform) and is fully supported.

Exacom includes a level of reporting capabilities that improves the robustness of the monitoring work. It is also designed to deal with CIL and so will be valuable into the future, even when CIL is introduced by the Council.

Historically the S106 monitoring activities were undertaken by a S106 officer and more recently by various officers alongside other duties. Unfortunately, under these arrangements some tasks have not been kept up-to-date. A Planning Technician, dedicated to monitoring of S106 agreements and preparing for monitoring of CIL is being recruited on an initial fixed term basis and is expected to commence duties during March

2017. Implementation of the new IT system will be followed by a process review.

It is recommended that a follow-up audit of S106 agreement monitoring is undertaken once the new IT system and staffing arrangements have been in place for 9-12 months. This will allow time for the areas of concern identified in the previous audit to be addressed.

BACKGROUND PAPERS FOR THE DECISION

None

APPENDICES

None

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AUDIT COMMITTEE

16 MARCH 2017

REPORT OF AUDIT AND GOVERNANCE MANAGER

A.2 REPORT ON INTERNAL AUDIT – December 2016 to February 2017

(Report prepared by Steve Blake and Craig Clawson)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To provide a periodic report on the Internal Audit function for the period December 2016 – mid February 2017

EXECUTIVE SUMMARY

- All audits completed in the period achieved a satisfactory level of assurance.
- Scheduled audits that have been unable to be progressed in the current year have been taken into account in preparing the 2017/18 Internal Audit Plan, as part of a rolling programme and therefore there is no impact on risk exposure to the Council.

RECOMMENDATION(S)

That the contents of the report 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 Audit and Governance Manager, in his role as Chief Audit Executive, to make arrangements for reporting periodically to senior management (Management Board) and to the board (Audit Committee).

CURRENT POSITION

Public Sector Internal Audit Standards (PSIAS)

CIPFA have recently consulted on proposed changes to the standards, with a view to changes being made shortly. Once the 2017 changes have been published work will be undertaken to revise the Internal Audit Manual and working practices to reflect those changes, as appropriate, at the earliest opportunity.

Standards 1311 Internal Assessments and 1312 External Assessments

At the last meeting in January, the Committee agreed the form of the external assessment required. The Audit and Governance Manager is currently in the process of consulting with qualified suppliers for the provision of the External Quality Assessment with a view to the assessment being completed well before the January 2018 deadline.

The Internal Assessment due for the current financial year will be undertaken shortly.

Internal Audit Plan Progress

The Internal Audit Plan approved by the Audit Committee in March 2016 has been kept under review, in accordance with the requirements of the Public Sector Internal Audit Standards.

Since the last meeting of the Committee it has become apparent that it will not be practical to commence two audits included in the current financial year's plan before 31st March due to circumstances outside of the control of the Internal audit function, on Walton – on – the - Naze Lifestyles due to its temporary closure, and on Coast Protection where data required to undertake the audit is awaited. The Audit Plan is considered to be a rolling programme of work, and these audits have now been incorporated into the 2017/18 Internal Audit Plan which is included as a separate report on this agenda, with no significant impact on exposure to risk.

Appendix A provides details of the status for each audit as at February 2017. Any outstanding work on audits in progress at 31st March will be rolled forward into 2017/18, the plan including a provision of time to enable this to happen, and those audits will be completed and reported to the Committee during the year as part of the regular reports on Internal Audit.

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

Outcomes of Internal Audit Work

The standards require the Audit and Governance Manager to report to the Audit Committee on significant risk exposures and control issues. Since the last report 6 audits have been completed and the final report issued. The Public Sector Internal Audit Standards require the reporting of significant risk exposures and control issues.

Assurance	Colour	Number this Period	Year to Date	
Substantial	Green	3	11	
Adequate	Light Green	3	20	
Improvement Required	Yellow	0	5	
Significant Improvement Required	Red	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 were no issues identified in the audits completed in the period that were of a significant nature requiring reporting to the Committee.

Management Response to Internal Audit Findings – There are processes in place to track the action taken regarding findings raised in Internal Audit reports and to seek assurance that appropriate corrective action has been taken. Where appropriate follow up audits have been arranged to revisit significant issues identified after an appropriate time.

The number of high severity issues outstanding was as follows: -

Status	Number	Comments
Overdue more than 3 months	0	
Overdue less than 3 months	1	Regular reminders are issued to relevant managers to establish that corrective action has been taken / encourage resolution of each issue.
Not yet due	6	

BACKGROUND PAPERS FOR THE DECISION





Audit Reports



APPENDICES

Appendix A – Internal Audit Plan 2016/17 Progress Report

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Audit Subject	Status February 2017	Opinion	Comments
<u>2014/15 Internal Audit Plan</u>			
(Audits where Final Report not issued by 31 st March 2016)			
<u>Assurance Work – Other Systems</u>			
S106 (Follow Up)	Completed	Improvement Required	Reported June 2016
<u>2015/16 Internal Audit Plan</u>			
(Audits where Final Report not issued by 31 st March 2016)			
<u>Assurance Work – Key Systems</u>			
Corporate and Ethical Governance	Completed	Substantial Assurance	Reported June 2016
Housing Benefits	Completed	Adequate Assurance	Reported June 2016
Housing Rents	Completed	Substantial Assurance	Reported June 2016
National Non Domestic Rates	Completed	Adequate Assurance	Reported June 2016
Sundry Debtors	Completed	Improvement Required	Reported June 2016
<u>Assurance Work – Other Systems</u>			
Development Management	Completed	Adequate Assurance	Reported September 2016
Elections and Electoral Registration		Substantial Assurance	Reported June 2016
Emergency Planning	Completed	Adequate Assurance	Reported June 2016
Household Waste and Recyclable Materials	Completed	Adequate Assurance	Reported September 2016
Housing Repair and Maintenance	Completed	Adequate Assurance	Reported September 2016
Open Spaces, Horticulture and Play Areas	Completed	Adequate Assurance	Reported January 2017
Parking Services	Completed	Adequate Assurance	Reported September 2016
Planning Enforcement	Completed	Adequate Assurance	Reported September 2016
Risk Management	Completed	Substantial Assurance	Reported June 2016

Audit Subject	Status February 2017	Opinion	Comments
<u>Assurance Work – Computer Audit</u>			
ICT Business Continuity / Disaster Recovery IT Governance	Completed Completed	Adequate Assurance Adequate Assurance	Reported September 2016 Reported September 2016
<u>AUDITS SCHEDULED TO COMMENCE IN 2016/17</u>			
<u>2016/17 Internal Audit Plan</u>			
<u>Assurance Work – Key Systems</u>			
Bank Account	Completed		
Business Rates Corporate and Ethical Governance Corporate Procurement Review Ordering Compliance	Fieldwork Allocated		
Council Tax	Completed	Adequate Assurance	
Creditors Departmental Procurement Procurement – Contractor Use Public Realm Procurement	Completed Completed Allocated	Substantial Assurance Improvement Required	Reported January 2017 Reported January 2017
Housing Benefit	Fieldwork		
Housing Rents	Completed	Adequate Assurance	
Main Accounting System	Completed	Substantial Assurance	
Payments Received Payroll	Draft Report Completed	Substantial Assurance	Reported January 2017

Audit Subject	Status February 2017	Opinion	Comments
Sundry Debtors Treasury Management	Allocated Completed	Substantial Assurance	
<u>Assurance Work - Emerging Key Projects</u>			
Audits to be arranged	Deferred		Deferral to 2017/18 agreed at January 2017 meeting
<u>Assurance Work – Other Systems</u>			
Beach Huts	Completed	Adequate Assurance	Reported January 2017
Bereavement Services	Completed	Adequate Assurance	Reported January 2017
Building Control	Allocated		
Coast Protection	Deferred		See Internal Audit Charter and Internal Audit Plan 2017/18 report
Financial Resilience	Completed	Adequate Assurance	Reported January 2017
Fraud and Compliance Team	Deferred		Deferral to 2017/18 agreed at January 2017 meeting
Grants / Financial Assistance	Allocated		
Housing Allocations	Completed	Improvement Required	Reported September 2016
Housing Repairs and Maintenance	Draft Report		
Leisure Services Development Programme	Completed	Substantial Assurance	Reported September 2016
Planning Policy	Unallocated		
Public Conveniences	Completed	Adequate Assurance	
Risk Management	Allocated		
Staff Allowances			
Corporate Services	Completed	Adequate Assurance	Reported January 2017
Operational Services	Completed	Substantial Assurance	Reported January 2017

Audit Subject	Status February 2017	Opinion	Comments
Street Sweeping	Completed	Adequate Assurance	Reported September 2016
Walton – on – the – Naze Lifestyles	Deferred		See Internal Audit Charter and Internal Audit Plan 2017/18 report

Assurance Work – Computer Audit

I T Governance	Allocated		
I T Project Management	Fieldwork		
Payroll / Human Resources – Computer Application Review	Completed	Improvement Required	Reported January 2017
Revenues and Benefits Computer Application Review	Completed	Adequate Assurance	Reported January 2017
Uniform Application Review	Fieldwork		

Status Key

Unallocated

Audit in Audit Plan, but no work undertaken yet

Allocated

Audit is being scoped / has been scoped and awaiting commencement

Fieldwork

Audit in progress

Draft Report

Audit fieldwork complete, but Final Report not yet issued

Completed

Final Report issued and audit results reported to Audit Committee

Deferred

Audit was in Audit Plan, but will now be undertaken in a later year. Deferred audits agreed by Audit Committee

Delayed

Valid request from function being audited for audit to be undertaken later than proposed

AUDIT COMMITTEE

16 MARCH 2017

REPORT OF AUDIT AND GOVERNANCE MANAGER

A.3 INTERNAL AUDIT CHARTER AND INTERNAL AUDIT PLAN 2017/18

(Report prepared by Steve Blake)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To seek the approval of the Audit Committee for an updated Internal Audit Charter.

To seek the approval of the Audit Committee for the Internal Audit Plan for 2017/18.

EXECUTIVE SUMMARY

- An updated Internal Audit Charter has been produced reflecting legislative and other changes required.
- A high level statement of how the Internal Audit Service will be delivered and developed has been produced that meets the requirements set out in the Public Sector Internal Audit Standards.
- The Internal Audit Plan for 2017/18 has been produced, taking into account the requirements set by the standards, and is considered to provide sufficient coverage to enable the Audit and Governance Manager to provide in due course an opinion on the control environment of the Council.
- The plan can be delivered within the resources and budget available.
- The plan will be kept under review, and amended as necessary to reflect changing circumstances, and to provide a flexible approach to service delivery.

RECOMMENDATION(S)

- (a) That the updated Internal Audit Charter be approved.**
- (b) That the Internal Audit Plan for 2017/18 be considered and approved.**
- (c) 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 2017/18 Internal Audit Plan can be resourced from the 2017/18 budget.

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

The Public Sector Internal Audit Standards require that the Audit and Governance Manager: -

1. Periodically reviews the Internal Audit Charter and presents it for approval.
2. Provides a high level statement of how the Internal Audit Service will be delivered and developed in accordance with the Internal Audit Charter and how it links to the organisational objectives and priorities.
3. Establishes a risk based Internal Audit Plan, at least annually, to determine the priorities of the Internal Audit function, consistent with the Council's goals.
4. 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.
5. Produces a plan that takes into account the need to produce an annual Internal Audit opinion.
6. Considers the input of senior management and the Audit Committee in producing the plan.
7. Assesses the Internal Audit resource requirements.

CURRENT POSITION

Internal Audit Charter

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

The Charter was last reviewed and reported to the Committee in March 2016.

Changes made to the Public Sector Internal Audit Standards since then necessitate some changes to be made to the Charter and the opportunity has been taken to review and update other content as necessary.

The Standards require the Charter to be a formal document that: -

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

The proposed Charter is included at Appendix A, with the revised content in red text. This document has been produced taking into account the requirements of the standards, and requires formal approval.

Further changes are due to be made to the Public Sector Internal Audit Standards in 2017, but have yet to be published. Any revision to the Charter required will be brought to a future meeting of the Committee.

Statement Regarding Delivery and Development of the Internal Audit Service

The Internal Audit Charter, above, defines the mission, purpose, authority and responsibility of the Internal Audit function.

The Internal Audit function will strive to continue to develop and deliver a service that operates within the requirements of the Public Sector Internal Audit Standards. The function continues to develop its processes and procedures to demonstrate compliance and best practice in the work that it undertakes.

The Internal Audit function will continue to deliver a service that takes account of and follows the requirements as set out in the Charter, and : -

- Discharges the Council's statutory responsibilities with regard to internal audit
- Provides a service compliant with the requirements of the standards
- Contributes to the Council's governance, risk and assurance arrangements
- Enables the Audit and Governance Manager to provide an annual opinion on the

- overall adequacy and effectiveness of the Council's control environment
- Delivers a quality service.

To aid effective delivery of the service an up to date specialist audit software package will be maintained.

The Internal Audit resources available are considered sufficient to be able to deliver an Internal Audit plan that meets the above requirements. The Internal Audit function will be primarily provided by an in house team. Budgetary provision exists to enable some specialist external resource to be procured to cover any gaps in the in house team's skillset, if it proves necessary to do so to provide the internal audit coverage required. The Internal Audit function will continue to review, refine and develop its techniques to improve its efficiency, to improve coverage wherever possible.

The Internal Audit function will operate independently of the activities that it audits to enable auditors to perform their duties in a manner that facilitates impartial, objective and effective professional judgements and recommendations. Appropriate arrangements are in place to identify and record any conflicts of interests that occur, and to prevent such conflicts from impairing independence.

The function will seek to identify and address, in the work it undertakes, significant and emerging national and local risks. To achieve this aim the Internal Audit function will: -

- Continue to adopt a flexible approach with regard to audit planning, both in terms of having appropriate mechanisms in place to review and update the plan throughout the year as necessary, and at the individual audit level with regard to the objectives and scope of each audit undertaken.
- Maintain alignment of the Internal Audit plan and the content of audits with the Council's Corporate Risk Register and organisational objectives and priorities.
- Take account of emerging risks and exposures to the Council, identified both externally and internally.

Liaison will be undertaken with the Council's external auditors to ensure that they are able to place reliance on the work of Internal Audit, where appropriate. Where other sources of assurance are available, including external audit, the Audit and Governance Manager will consider the placing of reliance upon those other sources where it is appropriate to do so. In such cases the level of coverage undertaken by the Internal Audit function may be varied to reflect this.

Internal Audit Plan 2017/18

The plan has been produced taking into account the requirements as set out in the Public Sector Internal Audit Standards, and the Internal Audit Charter.

The introduction of new Internal Audit software during 2015/16 required production of a new Internal Audit Universe to take account of design features of the software. That universe has been subject to change in 2016/17 to reflect changes to the organisational structure of the Council and emerging risks and will continue to evolve during 2017/18 as the Council and the risks it is exposed to continue to change.

It is not feasible, or necessary, to undertake audit of all activities, or risks, in any one financial year and a documented risk assessment process is in place to determine where prioritisation should be given within the Audit Universe. A risk assessment has been undertaken to create the proposed plan, factoring in exposure to risk as identified in the Council's Corporate and Departmental Risk Registers, and issues that have emerged

during 2016/17. Additionally consideration has been given to the Council's corporate priorities and objectives.

Discussions have been held with Management Team members individually and collectively, and their senior managers, and their input has been taken into account in the plan presented to the Committee. The Committee now has the opportunity to input into the plan.

Internal Audit Resource Requirements

Detail regarding the proposed budget for the Internal Audit function was reported, for comment, to the Committee's January meeting. The budget at that time was considered sufficient to deliver the level of service required. That budget has since been approved without amendment.

The establishment for the Internal Audit function remains at 4.6 fte. However not all of this resource is available for Internal Audit as the Audit and Governance Manager has some non-audit duties. Whilst there is some budget available that can be used to procure a contractor to provide a limited amount of additional coverage, it should be noted that the Internal Audit function is required to be externally reviewed before January 2018, which will require use of some of the available budget. At the current time quotations are in the process of being sought for the external review, and until this process has been completed the level of commitment of the available budget is unknown. However no immediate need for the use of external resource has been identified in the draft plan, but if such a requirement becomes apparent during the year, then a virement from other budgets may prove necessary if insufficient funding remains within the Internal Audit cost centre.

The level of Internal Audit coverage needed has previously been determined as being of the order of 630 days a year. Whilst the Internal Audit Universe continues to evolve, the changes to the universe identified to date are not considered to have materially changed the universe size and the perceived resource requirements. At the current time the existing level is considered to remain appropriate to provide a sufficient level of coverage and to enable the Audit and Governance Manager to be able to provide in due course the required assurances.

After taking account of planned and unplanned absence, training and development, audit planning and reporting, the need for an external assessment, administrative time, system development and contingencies, the resources available have been calculated as being able to provide the level of coverage required.

Internal Audit Plan Detail

The plan provides an outline of the work currently proposed to be undertaken during the 2017/18 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 plan has been produced with an indicative resource requirement for each audit programmed. In order to allow for flexibility, the time assessed as required to undertake each assignment will be determined and agreed by the Audit and Governance Manager with the relevant Corporate Director / Head of Department at the time each audit is

scoped. This will enable the scope to be tailored to ensure that the work to be undertaken is appropriate to need at the time, adds value and provides the level of assurance required.

As referred to above, 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.

The currently agreed process for plan amendments is for approval to be sought from the Audit Committee, except in urgent instances when Chairman's approval will be sought. The Audit Committee will be made aware of material changes as part of the regular Internal Audit reporting arrangements. It is proposed that these arrangements continue to allow sufficient flexibility to enable amendments to be made as and when required and without delay.

Outline of Plan

	2017/18 Plan (Days)	Comments
Assurance Work		
Key Systems	141	Considered compulsory
Emerging Key Projects	20	Provision for emerging projects such as Jaywick, Garden Communities.
Other Systems	217	
Computer Audit	34	
Action Tracking / Follow Up	24	Ongoing work to ensure that issues identified during audits are addressed
Carry Forward of Work in Progress at 31 st March 2017	75	For completion of 2016/17 audits
Total Assurance Work	511	
Other Work		
Proactive Anti-Fraud Audits and Initiatives	30	Emerging fraud risks and potential exposures
Ad Hoc	89	Consultancy and Advice, Requested and Unplanned Audits, Investigations
Total Other Work	119	
Total Days	630	

A more detailed breakdown of the plan is included at Appendix B.

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

- An enhanced level of coverage for Procurement continues to be applied within the plan, to enable additional work to be undertaken to review the processes in operation departmentally with a view to reducing the volume of issues of non-compliance with the Council's Procurement and Financial Procedure Rules.
- The level of assurance that it has been possible to provide on some key systems

audits undertaken in 2015/16 and 2016/17 has made it possible to reduce the level of coverage planned in 2017/18, and where indicated it is currently intended that a light touch approach will be undertaken. In the result of any emerging issues identifying that additional coverage for any of these audits is necessary then the plan can be adjusted as appropriate at the time.

- An allowance of time continues to be included to enable Internal Audit work to be undertaken as appropriate on the emerging key projects of the Council. These are projects that currently do not individually appear in the Internal Audit Universe in their own right either pending formal decisions being made, or where the project has not yet reached sufficient maturity. However such projects pose potential emerging significant risks to the Council and as such there is a role for Internal Audit at appropriate stages in each project's development. Such projects will ultimately be included within the Audit Universe, for the remaining duration of the project or while the Council continues to have an ongoing interest, and be risk assessed in their own right to establish the timing and content of audit coverage required. Whilst the number of days identified in the plan is low, plan adjustments will be made if the audit need during the year proves to be greater.
- Audits previously deferred, or now requiring deferral, in 2016/17 have been included in the 2017/18 plan. The additional audits subject to deferral are Walton – on – the – Naze Lifestyles as a consequence of its recent temporary closure and Coast Protection where an audit of the Holland - on - Sea final account remains outstanding, and effectively these now roll forwards into the new year.
- CIPFA during 2016 published "**Fighting Fraud and Corruption Locally**", a counter fraud and corruption strategy for local government. It is designed to enable local authorities to develop and maintain a culture in which fraud and corruption are understood to be unacceptable. Audits have been included in the 2017/18 plan to examine the Council's arrangements regarding Corporate Counter Fraud arrangements, and Members and staff making disclosures relating to gifts, hospitality and business.

In addition the plan includes a provision for proactive anti-fraud audit. This provision may be used in conjunction with assurance audits scheduled embedding additional content in those audits to cover emerging or known fraud risks, for one off exercises, and for researching exposure and promoting awareness of specific or generic risks to relevant members of staff or the organisation as a whole.

- In considering the Internal Audit Universe, risk exposure and audit scheduling, consideration has been given to alignment of the Annual Audit Plan with the Corporate and Departmental Risk Registers. Due to the nature of activities and risks, it is not necessary to cover all risks in the Corporate Risk Register every year. Corporate risks from the December 2016 risk register have been included in the plan with the exception of: -

2c Community Leadership Projects / 2h Essex Family Solutions

Current audit risk assessment doesn't give this risk sufficient priority to reach the plan at this time.

4a Loss of Key Staff / 4b Lack of Capacity to Deliver Core Services

There is an element of coverage of these risks embedded in most audits, but no specific audit planned.

7a Local Plan

The audit was included in the 2016/17 plan, but currently hasn't commenced and is expected to roll forward into the 2017/18 at the year end.

9a Ineffective Emergency Planning / 9b Ineffective Business Continuity Planning

Audit undertaken 2015/16 with an outcome of Adequate Assurance.

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 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 Charter
Appendix B - Internal Audit Plan 2017/18

TENDRING DISTRICT COUNCIL INTERNAL AUDIT

INTERNAL AUDIT CHARTER - MARCH 2017

1. INTRODUCTION

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

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

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

This version of the Internal Audit Charter has been produced in **March 2017, and replaces that approved in March 2016.**

2. DEFINITION OF ROLES

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

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

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

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

3. REQUIREMENT FOR INTERNAL AUDIT

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

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

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

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

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

The PSIAS, the definition of Internal Auditing and the Code of Ethics within the standards, are mandatory. Arrangements will be made to ensure that the Internal Audit function operates in accordance with the PSIAS, **and that the core principles for the professional practice of Internal Auditing as detailed in the standards are present and operating effectively**. In the event that circumstances prevent full compliance, appropriate equivalent safeguards or measures will be adopted as permitted by the standards, and the Audit Committee made aware. The Audit and Governance Manager's Annual Report will take into account any issues of non-compliance.

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

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

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

5. MISSION, PURPOSE, RESPONSIBILITY, OBJECTIVES AND SCOPE OF INTERNAL AUDIT

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

The purpose of the Internal Audit function is to: -

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

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

Appendix A

- provide an Internal Audit services that discharges the Council's statutory responsibilities with regard to internal audit
- provide a service that is compliant with the requirements of the PSIAS
- contribute to the Council's governance, risk and assurance arrangements
- enable the Audit and Governance Manager to provide an annual opinion on the overall adequacy and effectiveness of the Council's control environment
- deliver a quality service **that strives to continually improve**
- **communicate effectively on risk and control issues, identified or that the Council might be exposed to, providing insightful, proactive and future-focused solutions where appropriate, that promote improvement to the Council's risk and control frameworks.**

The scope of Internal Audit includes: -

- undertaking independent risk based reviews to provide assurance on the effectiveness, efficiency and legality of management and service delivery arrangements
- undertaking ad hoc reviews as requested by management
- undertaking / participating in investigations including those in relation to potential fraud, corruption, bribery or irregularity
- undertaking proactive anti-fraud work examining emerging fraud risks and potential exposures identified
- providing consultancy and advice on major projects, and ad hoc advice upon demand
- dissemination to the organisation of best practice

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

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

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

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

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

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

Arrangements will be maintained to ensure that a quality assurance programme is in place that meets the requirements of the PSIAS.

6. ORGANISATIONAL INDEPENDENCE OF INTERNAL AUDIT

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

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

The Audit and Governance Manager has some other operational responsibilities of a governance nature. Arrangements will be maintained to ensure that the post holder is not involved in audits on such areas in either an operational or supervisory role to maintain independence. **The team have no other non-audit operational responsibilities within their job roles.**

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

7. ACCOUNTABILITY, REPORTING LINES AND RELATIONSHIPS

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

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

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

Appendix A

All Internal Audit reporting, at both officer and Member level, shall be by the Audit and Governance Manager in his own name.

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

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

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

The Audit and Governance Manager may be required to provide assurance to external parties, such as grant funding bodies, where so requested. He will ensure that such engagements are conducted reflecting any requirements set by such bodies, and professional standards.

The Audit and Governance Manager will maintain a dialogue with Corporate Directors / Head of Department to ensure that emerging risks, and operational changes, are reflected in the work programme for Internal Audit at the earliest opportunity.

The Audit and Governance Manager Audit will develop and maintain relationships with the Council's external auditors and other review bodies, taking account of the differing roles and responsibilities of each organisation.

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

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

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

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

- The Annual Internal Audit Plan
- Internal Audit Plan updates during the year

- The Internal Audit Charter

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

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

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

9. FRAUD AND CORRUPTION

Managing the risk of fraud and corruption lies with management. The Internal Audit function does not have responsibility for the prevention and detection of fraud and corruption. Internal Auditors will be alert in the work undertaken to risks and exposures that could allow fraud or corruption to occur, **and where appropriate will agree and report on control improvements to mitigate such risks and exposures.**

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

The Audit and Governance Manager will take into account any reported irregularities in preparing his annual opinion, in preparing the risk based annual internal audit plan, and in scoping any related audits.

The Internal Audit plan each year can include a provision of time for proactive anti fraud and corruption work to examine emerging fraud risks and potential exposure, and any other proactive anti fraud activities appropriate to promote an effective anti fraud and corruption culture throughout the Council.

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

10. INTERNAL AUDIT RESOURCE REQUIREMENTS

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

The level and nature of resources required for each year's plan will be considered as part of the annual audit planning process to ensure that the resources

available are deemed sufficient taking account of changes to the audit universe, changes to exposure of the organisation to risk, and developing professional standards.

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

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

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

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

11. RIGHT OF ACCESS

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

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

Internal Audit shall have, for the purposes of internal audit, the right of access to all establishments operated by the Council, all records held by the Council, all assets and personnel. Where the Council enters into partnership arrangements, or outsources functions, the contractual arrangements shall include provision for the right of access by the Council's Internal Auditors to all records and assets that relate to the Council. The Council's Internal Auditors shall have authority to obtain such information and explanations as are considered necessary to fulfil their internal audit responsibilities.

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

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Audit	Risk Score	Days	Corporate Risk Register Ref	Corporate Priorities and Objectives	Comments
KEY SYSTEMS					
Departmental Procurement	100	30		Good Governance Deliver High Quality Affordable Services	Enhanced level of audit to identify and resolve procedural issues regarding procurement
Housing Benefit	98	15	6c	Support the Vulnerable	
Business Rates	90	10	8b	Balance our Budget Support Rural Communities	Light touch audit
Main Accounting System	86	10	5a, 8a, 8b	Delivering High Quality Affordable Services Balance our Budget	Light touch audit
Corporate and Ethical Governance	82	12	3a, 3b	Good Governance Engagement with the Community	
Banking	80	5		Good Governance	Light touch audit
Council Tax	79	10	8a	Support the Vulnerable	Light touch audit
Payroll	75	7		Good Governance	Light touch audit
Creditors	72	5		Good Governance	Light touch audit
Treasury Management	72	7		Balance our Budget Make the most of our Assets	
Housing Rents	71	10		Good Governance Make the most of our Assets	Light touch audit
Payments Received	68	10		Good Governance	
Sundry Debtors	60	10		Good Governance	

Audit	Risk Score	Days	Corporate Risk Register Ref	Corporate Priorities and Objectives	Comments
EMERGING KEY PROJECTS		20	2f, 2i	Jaywick Sands Community Development Economic Development Delivery Garden Community Deliver High Quality Affordable Services Transform the way we Work Council House Building	Provision of time for emerging projects, eg. Jaywick, Garden Communities
OTHER SYSTEMS					
Asset Management	83	20	1a, 2d	Financial Self Sufficiency Make the most of our Assets	Includes follow up from previous audit and operation of new Commercial Property Investment fund
Risk Management	80	10		Good Governance	
S106	80	15		Deliver a Quality Living Environment	Follow up audit
Corporate Counter Fraud	78	10	3d	Good Governance	Deferred from 2016/17
Princes Theatre and Essex Hall	78	15		Maximising Tourism and Leisure Opportunities	
Regeneration and Inward Investment	77	15		Improved Broadband Economic Development Delivery Local Regeneration Support Business Growth Enable Better Job Prospects	

Audit	Risk Score	Days	Corporate Risk Register Ref	Corporate Priorities and Objectives	Comments
Coast Protection	75	7	2a	Cliff Stabilisation	Deferred from 2016/17 – includes contractual requirement to undertake final account audit on Holland – on – Sea scheme
Licensing	73	12		Good Governance Deliver a Quality Living Environment	
Parking Services	73	15		Make the most of our Assets	
Departmental Staff Allowances and Time Insurance	70	15		Good Governance	
Walton – on – the – Naze Lifestyles	70	10		Good Governance	
Walton – on – the – Naze Lifestyles	70	15		Enhancing Leisure Facilities	Deferred from 2016/17 due to temporary closure of site
Engineering Services	66	10		Make the most of our Assets	
Health and Safety	66	10	3c	Good Governance	To review Corporate Health and Safety arrangements following introduction of revised arrangements
Departmental Governance	61	10		Good Governance	Staff gifts, hospitality and declarations of interest
Housing Repair and Maintenance	57	18		Deliver a Quality Living Environment	
Member Support	55	10	3a	Good Governance	To include disclosure of Members gifts, hospitality and business, and Members allowances.

Audit	Risk Score	Days	Corporate Risk Register Ref	Corporate Priorities and Objectives	Comments
COMPUTER AUDIT					
Human Resources / Payroll Application Review	82	5		Good Governance	Follow up audit
IT Governance	78	7	1c, 6a, 6c, 6d	Good Governance	
IT Support	76	7	6d	Make the most of our Assets	
IT Infrastructure	72	10	1b, 1c, 2f, 6c, 6d	Transforming the way we work	
Cash Receipting Application Review	60	5		Good Governance	
ACTION TRACKING / FOLLOW UP		24			Ongoing work to monitor that issues identified during audits are addressed
CARRY FORWARD OF WORK IN PROGRESS		75			To enable completion of 2016/17 audits in progress at 31 st March 2017
PROACTIVE ANTI FRAUD		30		Good Governance	To examine emerging fraud risks and potential exposures identified
AD HOC		89			Consultancy and advice, requested and unplanned audits, investigations

AUDIT COMMITTEE

16 MARCH 2017

REPORT OF CORPORATE DIRECTOR (CORPORATE SERVICES)

A.4 EXTERNAL AUDITOR'S AUDIT PLAN 2016/17 (Report prepared by Richard Barrett)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To present for consideration and agreement the External Auditor's Audit Plan for 2017/18.

EXECUTIVE SUMMARY

The External Auditor's Audit Plan for the year ending 31 March 2017, which is attached, sets out their planned audit work in respect of the 2016/17 Financial Statements and Value for Money conclusion. The plan is developed taking into account a number of factors such as strategic, operational and financial risk which provides a reporting focus on the areas that matter and more likely to be relevant to the Council.

RECOMMENDATIONS

That the Audit Committee considers and agrees the External Auditor's Audit Plan for 2016/17.

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

Appendix A of the attached plan sets out a breakdown of fees. The planned fee totals **£76,183** (including certification of claims and returns) along with a small non-audit fee associated with technical accounting for the Garden Communities project which is being developed.

The current External Audit fee budget totals **£74,840** which is a shortfall of **£1,343** compared with the planned fee. This additional amount reflects the work associated with the development of the Garden Communities scheme and therefore will be met as part of the overall project costs.

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.

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 2016/17**

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 by the end of September.

The Audit Plan issued by the External Auditor highlights at a summary level, aspects of the work they plan on undertaking including the value for money conclusion. Their plan for the 2016/17 financial year is attached.

The plan covers a number of issues ranging from processes and strategy to the assessment of financial statements and value for money risks. All relevant risks identified are being actively managed within the Council as appropriate.

The outcome of the External Auditor's work will be set out in the Audit Results Report that will be presented to the Audit Committee at their September 2017 meeting followed by the Annual Audit Letter provided to the Council shortly after.

It is also worth highlighting that there are a number of key issues that the External Auditor is required to provide to the Audit Committee. These are set out on **Appendix B** of the Attached Audit Plan.

BACKGROUND PAPERS FOR THE DECISION

None

ATTACHMENTS

The External Auditor's Audit Plan 2016/17

Tendring District Council

Ernst & Young LLP

Year ending 31 March 2017

Audit Plan

28 February 2017



EY

Building a better
working world

Audit Committee
Tendring District Council
Town Hall
Station Road
Clacton-on-Sea
Essex
CO15 1SE

28 February 2017

Dear Members

Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2016/17 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Audit Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this Audit Plan with you on 16 March 2017 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Kevin Suter
Executive Director
For and behalf of Ernst & Young LLP Appointed Auditor
Enc

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘Statement of responsibilities of auditors and audited bodies’. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk).

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

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

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

1. Overview

This Audit Plan covers the work that we plan to perform to provide you with:

- ▶ Our audit opinion on whether the financial statements of Tendring District Council give a true and fair view of the financial position as at 31 March 2017 and of the income and expenditure for the year then ended; and
- ▶ Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements;
- ▶ Developments in financial reporting and auditing standards;
- ▶ The quality of systems and processes;
- ▶ Changes in the business and regulatory environment; and
- ▶ Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

2. Financial statement risks

We outline below our current assessment of the financial statement risks facing the Council, identified through our knowledge of the Council's operations and discussion with those charged with governance and officers.

At our meeting, we will seek to validate these with you.

Significant risks (including fraud risks)	Our audit approach
Risk of fraud in revenue recognition	
<p>Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</p> <p>In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>Having assessed the key income and expenditure streams of the Council, we judge that there is material opportunity and incentive for the incorrect classification of revenue spend as capital expenditure.</p>	<p>We will</p> <ul style="list-style-type: none"> ▶ Review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.
Risk of management override	
<p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; ▶ Reviewing accounting estimates for evidence of management bias; and ▶ Evaluating the business rationale for significant unusual transactions.
Other financial statement risks	
CIPFA Code Changes to the CIES	
<p>Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the code) this year changing the way the financial statements are presented.</p> <p>The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS), and include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the 'Telling the Story' review of the presentation of local authority financial statements.</p> <p>The Code no longer requires statements or notes to be prepared in accordance with SeRCOP. Instead the Code requires that the service analysis is based on the organisational structure under which the authority operates. We expect this to show the Council's segmental analysis.</p> <p>This change in the code will require a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements. The restatement of the 2015/16 comparatives will require audit review, which could potentially incur additional costs, depending on the complexity and manner in which the changes are made.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Review of the expenditure and funding analysis, CIES and new notes to ensure disclosures are in line with the code; ▶ Review of the analysis of how these figures are derived, how the ledger system has been re-mapped to reflect the Council's organisational structure and how overheads are apportioned across the service areas reported; and ▶ Agreement of restated comparative figures back to the Council's segmental analysis and supporting working papers.

2.1 Responsibilities in respect of fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- ▶ Identifying fraud risks during the planning stages;
- ▶ Enquiry of management about risks of fraud and the controls to address those risks;
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud;
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud;
- ▶ Determining an appropriate strategy to address any identified risks of fraud, and,
- ▶ Performing mandatory procedures regardless of specifically identified risks.

3. Value for money risks

We are required to consider whether the Council has put in place ‘proper arrangements’ to secure economy, efficiency and effectiveness on its use of resources.

For 2016-17 this is based on the overall evaluation criterion:

“In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people”

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

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

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the following significant VFM risk which we view as relevant to our value for money conclusion.

Significant value for money risks	Our audit approach
Sustainable Resource Deployment: Achievement of Savings Needed over the Medium Term	
<p>The Council faces significant financial challenges over the next three to four years, with a forecasted underlying budget gap of £3.5m by 2019-20.</p> <p>Given the scale of the savings needed, there is a risk that savings plans to bridge this gap are not robust and/or achievable.</p>	<p>Our approach will continue to focus on:</p> <ul style="list-style-type: none"> ▶ The robustness of any assumptions used in medium term planning; ▶ The Council’s approach to prioritising resources whilst maintaining services; and ▶ The savings plans and concepts in place, and assessing the likelihood of whether these can provide the Council with the required savings/efficiencies over the medium term.

Informed Decision Making: Garden Communities

Over the past eighteen months, the Council, jointly with Colchester Borough Council, Braintree District Council and Essex County Council have developed proposals for Garden Communities in North Essex including one on the Tending / Colchester border.

The aim of the Garden Community approach is to identify an agreed strategic approach to the allocation and distribution of large scale housing led mixed use development, including employment opportunities and infrastructure provision.

As a new and significant arrangement there may be risks relating to the governance arrangements for the establishment of the project.

Our approach will continue to focus on:

- ▶ The governance structure in place to manage the garden community project.

We will keep our risk assessment under review throughout our audit, and communicate to the Audit Committee any revisions and any additional local risk-based work we may need to undertake as a result.

4. Our audit process and strategy

4.1 Objective and scope of our audit

Under the Code of Audit Practice our principal objectives are to review and report on the Council's:

- ▶ Financial statements; and
- ▶ Arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We report to you by exception in respect of your governance statement and other accompanying material as required, in accordance with relevant guidance prepared by the NAO on behalf of the Comptroller and Auditor General.

Alongside our audit report, we also review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require.

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

4.2 Audit process overview

Our intention is to carry out a fully substantive audit in 2016/17 as we believe this to be the most efficient audit approach. Although we are therefore not intending to rely on individual system controls in 2016/17, the overarching control arrangements form part of our assessment of your overall control environment and will form part of the evidence for your Annual Governance Statement. We will review the work completed by internal audit as part of this element of our work.

Our audit involves:

- ▶ Walking through the material financial systems, and assessing the design and implementation of key internal controls;
- ▶ Reviewing internal audit plans and the results of work undertaken; and
- ▶ Reliance on the work of experts in relation to areas such as pensions and valuations.

Processes

Our initial assessment of the key processes across the Council has identified the following key processes where we will seek to test key controls, both manual and IT:

- ▶ General ledger
- ▶ Accounts receivable;

- ▶ Accounts payable;
- ▶ Payroll;
- ▶ Council tax;
- ▶ National non-domestic rates;
- ▶ Housing rents;
- ▶ Housing benefits; and
- ▶ Property, plant and equipment;

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than random sampling techniques.

Internal audit

As in the prior year, we will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where we raise issues that could have an impact on the year-end financial statements.

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Pensions	EY pensions team to consider PWC's review of Tendring District Council's actuary: Barnet Waddingham
Property, Plant and Equipment	Tendring District Council's valuers, Bruton Knowles:

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's environment and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the expert to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and

- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

4.3 Mandatory audit procedures required by auditing standards and the Code

As well as the financial statement risks (section two) and value for money risks (section three), we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- ▶ Addressing the risk of fraud and error;
- ▶ Significant disclosures included in the financial statements;
- ▶ Entity-wide controls;
- ▶ Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- ▶ Auditor independence.

Procedures required by the Code

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- ▶ Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

Finally, we are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

4.4 Materiality

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition.

We have determined that overall materiality for the financial statements of the Council as £2.136 million based on 2% of gross expenditure. We will communicate uncorrected audit misstatements greater than £107,000 to you.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

4.5 Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code. The indicative fee scale for the audit of Tendring District Council is £58,708.

New reporting requirements within the CIPFA Code of Practice on Local Authority Accounting for 2016-17 impact the Comprehensive Income and Expenditure Statement. This is part of our Code of Practice audit work and we outline the extent of the extra work for this change in Section 2 of the Audit Plan.

4.6 Your audit team

The engagement team is led by Kevin Suter, Executive Director, who has significant experience of the Local Government Sector. Kevin is supported by Chris Hewitt, Manager, who is responsible for the day-to-day direction of audit work and is the key point of contact for the Section 151 Officer.

4.7 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the value for money work and the Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the Council through the Audit Committee's cycle in 2016/17. These dates are determined to ensure our alignment with PSAA's rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Chair as appropriate.

Following the conclusion of our audit we will prepare an Annual Audit Letter to communicate the key issues arising from our work to the Council and external stakeholders, including members of the public.

Audit phase	Timetable	Audit Committee timetable	Deliverables
High level planning	April 2016	June 2016	Audit Fee Letter
Risk assessment and setting of scopes	January – March 2016	March 2017	Audit Plan
Testing routine processes and controls	January – March 2016	June 2017	Interim Results Report (If appropriate)
Completion of audit	July 2017 – September 2017	September 2017	Report to those charged with governance via the Audit Results Report Audit report (including our opinion on the financial statements; and overall value for money conclusion). Audit completion certificate Reporting to the NAO on the Whole of Government Accounts return.

Conclusion of reporting	October 2017	December 2017	Annual Audit Letter
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In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

5. Independence

5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. 	<ul style="list-style-type: none"> ▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that we are independent; ▶ Details of any inconsistencies between APB Ethical Standards, the PSAA Terms of Appointment, and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ▶ An opportunity to discuss auditor independence issues.

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, for example when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future contracted services, and details of any written proposal to provide non-audit services;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period are disclosed, analysed in appropriate categories.

5.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including any principal threats. However we have adopted the safeguards below to mitigate these threats along with the reasons why they are considered to be effective.

Self-interest threats

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Council.

At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services, and we will comply with the policies that the Council has approved.

At the time of writing, the current ratio of non-audit fees to audit fees is approximately 3.4%, being £2,000 compare to the scale fee of £58,708. No additional safeguards are required.

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to the Council. We confirm that no member of our audit engagement team, including those from other service lines, is in this position, in compliance with Ethical Standard 4.

There are no other self-interest threats at the date of this report.

Self-review threats

Self-review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no other self-review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service where management is required to make judgements or decisions based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise. The table below sets out the other threats that exist as the date of this report.

Description	Related independence threat	Period provided/duration	Safeguards adopted and reasons considered to be effective
A former audit manager with both the Audit Commission and EY has been employed by the Council as a senior finance manager from October 2013.	The senior finance manager had previously worked with former Audit Commission and recent EY colleagues until this date.	From October 2013	In response to this change, and to ensure ongoing independence, the audit team below manager level employs staff who have not previously worked with the senior finance manager.

Overall Assessment

Overall we consider that the adopted safeguards appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and independence of Kevin Suter, Executive Director and the audit engagement team have not been compromised.

5.3 Other required communications

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended June 2016 and can be found here:

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2016>

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2016/17 £	Scale fee 2016/17 £	Outturn fee 2015/16 £	Explanation
Total Audit Fee – Code work Opinion Audit and VFM Conclusion	*£58,708	£58,708	£61,566	The 2015-16 audit scale fee was £58,708. The sum of £61,566 includes scale fee variation increases for sums of £1,387 and £1,079 for work on the Council's re-structuring proposals and £392 for requests for extra working papers during the audit as set out in our 2015/16 Audit Results Report.
Certification of claims and returns ¹	£15,475	£15,475	£13,110	The 2015-16 certification scale fee was £16,379. The sum of £13,110 fee reflects a discount of £3,269 recognising the work undertaken by the Housing Benefits team to complete initial testing on EY's behalf.
Non-audit work	£2,000	0	0	The non-audit fee of £2,000 relates to technical training on group accounting in respect of group accounting.

All fees exclude VAT.

*The planned fee for 2016/17 of £58,708 will be subject to a scale fee variation increase. This is because of the change of audit scope arising from how the new reporting requirements from the CIPFA Code of Practice on Local Authority Accounting for 2016-17 impacts the Comprehensive Income and Expenditure Statement as set out in Section 2 of this Plan. We will work with officers to establish working paper requirements to minimise the impact.

The agreed fee presented above is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ We can rely on the work of internal audit, if necessary;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

The four Councils involved with the Garden Communities development have engaged EY to deliver training on group accounting. We will conduct a training workshop covering:

- ▶ Identifying and building accounting groups under the Local Government Accounting Code and IFRS; and
- ▶ The accounting requirements of the Councils groups and the component entities in those groups.

Our work will not provide any specific direction for the accounting treatment of the Garden Communities project.

¹ Our fee for the certification of grant claims is based on the indicative scale fee set by the PSAA.

Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the Audit Committee. These are detailed here:

Required communication	Reference
<p>Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.</p>	<p>▶ Audit Plan</p>
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	<p>▶ Report to those charged with governance.</p>
<p>Misstatements</p> <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	<p>▶ Report to those charged with governance.</p>
<p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	<p>▶ Report to those charged with governance.</p>
<p>Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	<p>▶ Report to those charged with governance.</p>
<p>External confirmations</p> <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	<p>▶ Report to those charged with governance.</p>
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of 	<p>▶ Report to those charged with governance.</p>

Required communication	Reference
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement director's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Report to those charged with governance.
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>Significant deficiencies in internal controls identified during the audit</p>	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Report to those charged with governance ▶ Annual Audit Letter if considered necessary
<p>Certification work</p> <ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	<ul style="list-style-type: none"> ▶ Annual Report to those charged with governance summarising grant certification, and Annual Audit Letter if considered necessary

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AUDIT COMMITTEE

16 MARCH 2017

REPORT OF CORPORATE DIRECTOR (CORPORATE SERVICES)

A.5 EXTERNAL AUDIT REPORT – CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT 2015/16

(Report prepared by Richard Barrett)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To present the External Auditor's certification of claims and returns annual report 2015/16.

EXECUTIVE SUMMARY

- Only one claim / return made by the Council was subject to audit certification by the Council's External Auditor.
- The External Auditor's detailed report is attached. A qualification letter has been issued in respect of the housing benefit subsidy claim, although there has been only a marginal effect on the grant due.
- To date no response has been received from the Department for Works and Pensions in response to the External Auditor's qualification letter which they would have received in early December 2016.
- One recommendation has been made by the External Auditor.

RECOMMENDATIONS

That the Committee:

- a) Considers and notes the External Auditor's certification of claims and returns annual report 2015/16; and**
- b) agrees the recommended action in response to the External Auditor's findings.**

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

The aim of continuing to be financially stable and well managed and provide good value for money is directly supported through learning and improving through audit and inspection. This requires proportionate responses to recommendations and opportunities for improvement identified by the External Auditor each year.

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

Due to initial testing being done by Revenues and Benefits Officers on behalf of the External Auditor, a fee reduction of **£3,269** has been agreed, which reduces the overall proposed fee to **£13,110**. There have been increases to fees in respect of other work undertaken by the External Auditor but taking all adjustments together they can be met from within existing budgets.

Risk

If proportionate and practical responses to recommendations made by the External Auditor are not fully considered then there is the risk that errors or incorrect claims are made in the future which could have an adverse impact on the Council's reputation and standing in addition to any potential financial loss.

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.

There are no direct implications.

PART 3 – SUPPORTING INFORMATION

BACKGROUND AND OUTCOMES FROM THE EXTERNAL AUDITOR'S WORK

The duty to make arrangements for the certification of relevant claims and returns is delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. These arrangements required only the certification of the Housing Benefits subsidy claim during the year. The External Auditor's report setting out the outcomes from the audit work they have undertaken is attached.

The testing work undertaken identified a small number of errors which have been summarised on pages 1 to 2 of the attached, with no significant impact on the overall level of subsidy receivable. A qualification letter has been issued by the External Auditor based on the findings set out in their report.

In response, a recommendation has been agreed that relates to the Council performing early and extended testing in those areas where errors were identified in 2015/16 to ascertain the extent of similar errors in 2016/17. Although this repeats recommendations from previous years, it does provide an underlying and practical response especially given the volume of cases dealt with each year where it will always be difficult to completely rule out errors during the assessment of claims.

In respect of the qualification letter to the Department for Works and Pensions (DWP), the errors found in the sample were very small (overall net amount less than £20). Other issues were identified such as it not being feasible to run reports every day to support sub-population

information. It is acknowledged that the Auditor has no option but to report these issues to DWP given that the errors found could be larger on exploration for example. In previous years DWP have not been minded to challenge the subsidy claim following receipt of the Auditor's qualification letter, which is expected to be the case this year as there has been no significant impact on the overall subsidy claimed.

BACKGROUND PAPERS FOR THE DECISION

None

APPENDICES

The External Auditor's Certification of Claims and Returns – Annual Report 2015/16

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Certification of claims and returns annual report 2015-16

Tendring District Council

15 December 2016

Ernst & Young LLP



Building a better
working world

The Members of the Audit Committee
Tendring District Council
Town Hall
Station Road
Clacton on Sea
CO15 1SE

15 December 2016

Ref: GPS/TDC/grant certification
Your ref:

Direct line: +44 7876 397986

Email: ksuter@uk.ey.com

Dear Members

Certification of claims and returns annual report 2015-16 Tendring District Council

We are pleased to report on our certification work. This report summarises the results of our work on Tendring District Council's 2015-16 Housing Benefit Subsidy claim.

Scope of work

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and must complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require appropriately qualified auditors to certify the claims and returns submitted to them.

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to the Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

For 2015-16, these arrangements required only the certification of the housing benefits subsidy claim. In certifying this claim we followed a methodology determined by the Department for Work and Pensions and did not undertake an audit of the claim.

Summary

Section 1 of this report outlines the results of our 2015-16 certification work and highlights the significant issues.

We checked and certified the housing benefits subsidy claim with a total value of £65 million. We met the submission deadline. We issued a qualification letter and we include the details in section 1. Our certification work found errors which the Council corrected. The amendments had a marginal effect on the grant due.

Fees for certification and other returns work are summarised in section 2. The Public Sector Audit Appointments Ltd (PSAA) published the housing benefits subsidy claim fees for 2015-16 in March 2015. The fees are now available on the PSAA's website (www.psaa.co.uk).



We welcome the opportunity to discuss the contents of this report with you at the next Audit Committee in 2017.

Yours sincerely

Kevin Suter
Executive Director
Ernst & Young LLP
United Kingdom

Contents

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2. 2015-16 certification fees.....	3
3. Looking forward.....	4
4. Summary of recommendations.....	5

1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£65,600,782
Amended/Not amended	Amended – subsidy reduced by £1
Qualification letter	Yes
Fee – 2015-16	£13,110 (this represents the scale fee of £16,379 less £3,269 to reflect testing undertaken by the Council on our behalf)
Fee – 2014-15	£20,633 (which included £1,543 additional fee)
Recommendations from 2014-15	Findings in 2015-16
Perform early extended testing in those areas where errors were identified in 2014-15, to ascertain the extent of similar errors arising in 2015-16.	The Council implemented the recommendation from last year. However, we have found similar errors in some areas in November 2016. As these could continue into to 2016/17, we have recommended the need for early extended testing in these areas to identify the extent of similar errors that may have been made in 2016-17.

Local Government administers the Government's housing benefits scheme for tenants and can claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid.

The certification guidance requires auditors to complete more extensive '40+' or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out as a result of errors that have been identified in the audit of claims in previous years. The Council identified errors and carried out extended testing in a number of areas, for which we re-performed a sample of cases.

Summary of errors: 2015/16

In undertaking initial testing of 20 cases across 2015/16 housing benefits for Non-HRA Rent Rebates, Rent Rebates, Rent Allowances and Modified Schemes, Council staff identified the following error:

Description of Cell	Nature of error
Cell 094: rent allowance – total expenditure	One case failed during the initial testing of rent allowances due to the incorrect rent amount used to calculate the benefit paid. We reported an extrapolation in the Qualification Letter.

Follow up of errors found from certifying previous housing benefit subsidy claims

The following errors were discovered by Council staff in undertaking extended '40+' and '100%' testing from errors reported in 2012/13, 2013/14 and 2014/15.

Description of Cell	Nature of error
Cell 094: rent allowance – total expenditure	2 overpayment errors found due to the Council applying the incorrect uplift to the state retirement pension increase. We reported an extrapolation in the Qualification Letter.
Cell 094: rent allowance – total expenditure	One error found in respect of overpaid benefits due to the incorrect application of industrial disability benefits. We reported the impact in the Qualification Letter.
Cell 094: rent allowance – total expenditure	One error found in respect of overpaid benefits due to the incorrect application of war disablement pension. We reported the impact in the Qualification Letter.
Cell 225: modified schemes – rent allowance	One error in respect of overpaid benefits due to an incorrect start date of war disablement pension. We agreed an amendment to the claim with the Council as the sample was 100% complete. The error is related to war disablement error reported under Cell 094 and had a small net impact on the claim.
Other	
Audit trails for sub-populations.	<p>We reported that the Council has provided reports to enable extended 40+ and 100% testing of the sub-populations for all cases within rent allowance in receipt of state retirement pension, industrial injury disability benefit and war disablement pension.</p> <p>The Council has run the reports to generate these sub-populations on the 1st April 2016. However, if a claimant was in receipt of any of these three types of income prior to this date but was no longer receiving this type of income, on the day the report was run, then the case would not appear in the sub-population.</p> <p>The Authority has advised the only way to obtain a complete report for these sub-populations would be to run the income elements report every day and which is not considered feasible.</p> <p>We have therefore not amended for these errors, but reported the facts to the DWP.</p>

We have also reported one underpayment to the DWP in our qualification letter. We also highlighted that the original claim included a sum for Rental Income for 2015/16 excluding Affordable Rents. The amendment reduces the relevant Cell to £0 from a sum of £5 million as the Council considers all rents are affordable.

The DWP will now decide whether to ask the Council to carry our further work to quantify the extrapolation errors or to claw back the benefit subsidy paid.

As the errors were found in November 2016, the Council may have made similar errors in the early part of the 2016/17 financial year. We have therefore recommended the need for early extended testing in these areas to identify the extent of similar errors that may have been made in 2016/17.

2. 2015-16 certification fees

The PSAA determine a scale fee each year for the audit of claims and returns. For 2015-16, these scale fees were published by the Public Sector Audit Appointments Ltd (PSAA's) in March 2015 and are now available on the PSAA's website (www.psaa.co.uk).

Claim or return	2015-16	2015-16	2014-15
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	***£13,110	£16,379	*£20,633

The indicative scale fee for 2015/16 is based on the final fee of £21,839 for 2013/14. The sum of £16,379 reflects the 25% reduction arising from the outcome of the Audit Commission's tendering exercise in March 2014.

Our proposed final fee for 2015/16 is £13,110. This sum represents the scale fee of £16,379 less £3,269. The reduction in the certification fee recognises that Council staff have undertaken initial testing on our behalf. We have discussed the fee with officers. The final fee is subject to review by Public Sector Auditor Appointments Ltd. who will determine the final scale fee.

3. Looking forward

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to (PSAA) by the Secretary of State for Communities and Local Government.

The Council's indicative certification fee for 2016-17 is £15,475. This was prescribed by PSAA in March 2016, based on no changes to the work programme for 2015-16. Indicative fees for 2016/17 housing benefit subsidy certification work are based on final 2014/15 certification fees. PSAA reduced scale audit fees and indicative certification fees for most audited bodies by 25 per cent based on the fees applicable for 2014-15.

Details of individual indicative fees are available at the following web address:
<http://www.psaa.co.uk/audit-and-certification-fees/201617-work-programme-and-scales-of-fees/individual-indicative-certification-fees/>

We must seek the agreement of PSAA to any proposed variations to these indicative certification fees. We will inform the Head of Finance, Revenues and Benefits before seeking any such variation. We envisage a reduction in the fee on the basis that Council staff continue to undertake initial testing on our behalf.

PSAA is currently consulting on the 2017-18 work programme. There are no changes planned to the work required and the arrangements for certification of housing benefit subsidy claims remain in the work programme. However, this is the final year in which these certification arrangements will apply. From 2018-19, the Council will be responsible for appointing their own auditor and this is likely to include making their own arrangements for the certification of the housing benefit subsidy claim in accordance with the requirements that will be established by the DWP.

4. Summary of recommendations

This section highlights the recommendations from our work and the actions agreed.

Recommendation	Priority	Agreed action and comment	Deadline	Responsible officer
Housing benefits subsidy claim Perform early extended testing in those areas where errors were identified in 2015-16, to ascertain the extent of similar errors arising in 2016-17.	High	Agreed	31 August 2017	Richard Barrett – Head of Finance, Revenues and Benefits

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AUDIT COMMITTEE

16 MARCH 2017

REPORT OF CORPORATE DIRECTOR (CORPORATE SERVICES)

A.6 AUDIT COMMITTEE WORK PROGRAMME 2017/18
(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 2017 to March 2018.

EXECUTIVE SUMMARY

A work programme covering the period April 2017 to March 2018 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 2017/18.

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 2017/18

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.

The work programme includes a counter fraud update scheduled for the September meeting of the Committee. This is subject to the implementation of a restructuring process currently underway across the Finance, Revenues and Benefits service. This also provides a direct response to a question previously raised by the Committee in respect of non-housing anti-fraud work that is currently included in the Table of Outstanding Issues Report elsewhere on the agenda.

Taking into account the responsibilities of the Audit Committee as highlighted above the proposed work programme covering the period from April 2017 up to and including March

2018 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.

BACKGROUND PAPERS FOR THE DECISION

None

APPENDICES

APPENDIX A – Audit Committee Work Programme 2017/18

A6 APPENDIX A

Audit Committee Work Programme 2017/18

Audit Committee Meeting	Item	From
June 2017	Annual Report of the Audit and Governance Manager 16/17	Audit and Governance Manager
	Internal Audit Regular Monitoring Report	Audit and Governance Manager
	Annual Governance Statement (including annual review of the Council's Code of Corporate Governance)	Corporate Director (Corporate Services)
	Corporate Risk Update	Corporate Director (Corporate Services)
	Table of Outstanding Issues (including update against External Audit Recommendations)	Corporate Director (Corporate Services)
September 2017	Internal Audit Regular Monitoring Report	Audit and Governance Manager
	Audit Results Report 2016/17	External Auditor / Corporate Director (Corporate Services)
	Counter Fraud Strategy / Update	Corporate Director (Corporate Services)
	Annual Review of the Risk Based Verification Policy	Corporate Director (Corporate Services)
	Table of Outstanding Issues (including update against External Audit Recommendations and obtaining the views of External Audit on the effectiveness of the Committee)	Corporate Director (Corporate Services)

December 2017	Internal Audit Regular Monitoring Report	Audit and Governance Manager
	Annual Audit Letter 2016/17	External Auditor
	Corporate Risk Update	Corporate Director (Corporate Services)
	Table of Outstanding Issues (including update against External Audit Recommendations)	Corporate Director (Corporate Services)
March 2018	Internal Audit Regular Monitoring Report	Audit and Governance Manager
	Internal Audit Charter and Internal Audit Plan 2018/19	Audit and Governance Manager
	External Audit - Audit Plan for Year Ending March 2018	External Auditor
	Certification of Claims and Returns Annual Report 2016/17	External Auditor / Corporate Director (Corporate Services)
	Audit Committee's Work Programme 2018/19	Corporate Director (Corporate Services)
	Table of Outstanding Issues (including update against External Audit Recommendations)	Corporate Director (Corporate Services)

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AUDIT COMMITTEE

16 MARCH 2017

REPORT OF CORPORATE DIRECTOR (CORPORATE SERVICES)

A.7 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 against outstanding actions identified by the Committee.

EXECUTIVE SUMMARY

- The Table of Outstanding Issues has been reviewed and updated since it was last considered by the Committee at its 26 January 2017 meeting.
- To date there are no significant issues to bring to the attention of the Committee, with updates provided against individual items set out in **Appendix A** or elsewhere on the agenda where appropriate.
- Updates against actions identified within the latest Annual Governance Statement are set out in **Appendix B** with no significant issues to highlight at the present time.

RECOMMENDATION(S)

That the progress against the outstanding issues be noted.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

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

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

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

Risk

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

LEGAL

There are no direct legal implications associated with this report.

OTHER IMPLICATIONS

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

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

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

PART 3 – SUPPORTING INFORMATION

TABLE OF OUTSTANDING ISSUES

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

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

Update Against Issues Raised

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

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

As Members will be aware, the Frinton and Walton Lifestyles facility has recently reopened following the completion of remedial work and associated testing for legionella. Although a recovery plan remains in progress, including training and other health and safety related issues, longer term improvement actions and learning points identified from this event are being finalised. Once completed, it is planned to present a summary of the findings and associated actions to the Committee for review and monitoring going forward.

BACKGROUND PAPERS FOR THE DECISION

None

APPENDICES

Appendix A – Table of Outstanding Issues (March 2017) – General.

Appendix B - Table of Outstanding Issues (March 2017) - Annual Governance Statement Actions

AUDIT COMMITTEE - Table of Outstanding Issues (March 2017)

GENERAL					
Governance Area	Activity / Subject	Recommendation / Issue	Lead Service	Progress / Comments	Status - Target Date
Risk Management	Effective Management of the Council's Property Portfolio	Following the Audit Committee's training session on 23 October 2014, Officers were requested to keep the Committee up to date with the property risk audit that is to be undertaken in partnership with the Council's insurers.	Head of Finance and Revenues and Benefits	A representative from the new insurers will be visiting the Council in early 2017/18 to take this action forward.	April / May 2017
Recommendations from the External Auditor	Certification of Claims and Returns Annual Report 2014/15	At its 17 March 2016 meeting the Committee considered the External Auditor's Certification of Claims and Returns Report for 2014/15 and approved the following recommendation : [That in respect of the Housing Benefits Subsidy Claim] Perform early extended testing in those areas where errors were identified in 2014-15, to ascertain the extent of similar errors arising in 2015-16.	Head of Finance and Revenues and Benefits	The latest position against the housing benefit subsidy claim for 2015/16 is set out elsewhere on the agenda.	March 2017
Fraud and Compliance	Effective delivery of Corporate Fraud and Compliance activities	At its 17 March 2016 meeting the Committee considered the Table of Outstanding Issues Report which provided an update on the how the Council is delivery non-housing benefit anti-fraud activities and included the key points below: <ul style="list-style-type: none"> • Staff within the Revenues and Benefits Service continue to undergo the necessary training to undertake fraud investigation work. • Anti-fraud activities form part of wider compliance work undertaken by the relevant team that seeks to maximise income for the Council such as undertaking checks on entitlement to Council Tax discounts, undeclared change of circumstances and tenancy fraud. • The Council's overall corporate approach to anti-fraud and associated investigation work across the whole Council needs to be balanced against key priorities and staff capacity. This is being reviewed as part of the wider reorganisation associated with the senior management restructure currently in progress. A further update will be provided to the Committee later in the year when the reorganisation has been completed / embedded. 	Head of Finance and Revenues and Benefits	A number of potential advantages (in respect counter fraud activities) from bringing the Finance and Governance activities together with the Revenues and Benefit function have been identified and reflected in a service restructure which is currently going though a consultation phase. Subject to the outcome of the consultation, it is expected that the proposed changes can start to be implemented from April 2017.	April 2017
The Council's Governance arrangements	Procurement / Contract Arrangements	At its 22 September 2016 meeting, the Committee considered the Table of Outstanding Issues Report, following which it resolved that in light of the recent experiences in connection with the public conveniences contract the Council reviews its current procurement/contract processes to identify if such issues could be prevented in the future.	Head of Finance and Revenues and Benefits	As part of the wider review of procurement processes that are planned for 2017/18, this issue will be taken into account in consultation with Legal Services.	On-going

<p>The Council's Governance arrangements</p> <p style="text-align: center;">Page 84</p>	<p>Procurement / Contract Arrangements</p>	<p>At its meeting on 22 September 2016, the Committee were presented with an update against actions identified as part of the Seafronts Investigation Action Plan. Outstanding actions are as follows:</p> <p>The centralisation of repair / maintenance type work to reduce the potential for untrained staff to become involved in the procurement process continues to be reviewed as there may be a number of potential advantages from this approach.</p> <p>Guidance / Mandatory training remains under development which will include the following key points:</p> <ul style="list-style-type: none"> * Actions to protect the Council from fraud * Expectation of officers if covering another officer's duties where procurement is undertaken * The nature and level of assistance that can be provided to people / organisations bidding for Council work * Disaggregation of works to avoid procurement procedure rules is not permitted * Checks to undertake ensure potential contractors have the capacity and financial stability to deliver the Council's requirements * What activities need to be completed before payment is released to contractors / suppliers * The correct coding of expenditure within the financial systems * Contractors not to be paid in advance unless contractually obliged to do so * 'Spot' checks required by Senior Managers to ensure rules / guidance is being adhered to 	<p>Head of Finance and Revenues and Benefits</p>	<p>A training guide has now been finalised for publication during March 2017. Additional training remains under consideration to compliment this guidance as it is recognised that different officers may require more detailed guidance such as when purchasing under EU procurement rules.</p> <p>It is also planned on placing restrictions within the Council's ordering system to ensure only those officers who have undertaken the necessary training and confirmed that they have read and understood the guidance can place orders.</p>	<p>March 2017</p> <p>On-going</p>
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AUDIT COMMITTEE - Table of Outstanding Issues (March 2017)

ANNUAL GOVERNANCE STATEMENT ACTIONS

ANNUAL GOVERNANCE STATEMENT ACTIONS		
Governance Issue	Action	Current Position / Update
Page 85	<p>Via the Financial Strategy process, continue to maintain a strong and robust approach to identifying savings and respond to new or additional burdens against the backcloth of the potential for further cuts in Government funding.</p> <p>The forecast budget 'gap' is £1.968m in 2017/18 rising to £5m on a cumulative basis by 2019/20. The budget 'gap' primarily reflects the continuing year on year reduction in Government funding.</p> <p>Financial Resilience remains at the forefront of the financial planning process with money identified where possible to invest in 'spend to save' projects that will in turn support the Council in delivering a balanced and sustainable budget in the long term, by aiming to find savings from within its underlying revenue budget rather than relying on potentially time limited income such as from the New Homes Bonus to balance the budget.</p> <p>Cabinet Members to lead on taking forward savings proposals which will include some difficult decisions such as ceasing service provision, decommissioning assets or reducing the level of services provided.</p>	<p>A balanced budget 2017/18 was agreed by Full Council on 7 February 2017.</p> <p>A key priority for the Council is to now look ahead to the budgets for 2018/19 and 2019/20 which will present a significant financial challenge with early forecasts indicating savings of £3.4m being required.</p>
	<p>A key / overlapping element of work that will be progressed during the year will be how the Council manages and utilises its assets effectively to support the delivery of services and priorities.</p>	<p>The on-going and comprehensive review of assets continues to form an important strand of work associated with the wider office transformation project. Decisions in respect of the Council offices in Weeley have now been taken and are being taken forward along with a number of further asset related initiatives.</p>

<p>Working with Partners and Other Third Parties</p>		
<p>Working with partners effectively to deliver strategic priorities</p>	<p>To ensure that adequate, effective and robust arrangements are in place for the acquisition of sites in the Jaywick area, and with a view to facilitating development or directly developing the sites for housing / regeneration stimulation.</p>	<p>The Council continues to work with partners in progressing / developing the various strands of this major project.</p>
	<p>To continue to play a key role in the development of the Garden Communities Project including key governance and financial arrangements set against open and transparent decision making.</p>	<p>The comprehensive report referred to when this issue was reported to the Committee in September 2016 was presented to Full Council on 29 November 2016, which set out the first steps in this major project. The Council continues to work with partnering authorities to take this project forward with further decisions planned to be presented to members in 2017/18.</p>
<p>Other Major Issues</p>	<p>To revise the Code of Corporate Governance taking account of the new CIPFA/ Solace framework applicable from 2016/17.</p>	<p>A revised Code of Corporate Governance was agreed by the Committee at its 26 January 2017 meeting.</p>
	<p>To continue to embed the arrangements regarding the recording of Officer Decisions and the Scheme of Delegation within Departments.</p>	<p>Training was provided to Senior Officers on the new Committee Management System in 2016, which also covered the requirements for Officer Decisions. The Scheme of Delegation to Officers remains as an on-going activity to reflect the most up to date position in respect of Portfolios and Senior Management Structures.</p>