



AUDIT COMMITTEE

DATE:	Thursday, 25 January 2018
TIME:	7.30 pm
VENUE:	Council Chamber, Council Offices, Thorpe Road, Weeley, CO16 9AJ

MEMBERSHIP:

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

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

DATE OF PUBLICATION: Thursday, 18 January 2018

AGENDA

1 Apologies for Absence and Substitutions

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

2 Minutes of the Last Meeting (Pages 1 - 4)

To confirm and sign as a correct record, the minutes of the last meeting of the Committee, held on Thursday 21 September 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 the Audit and Governance Manager - A.1 - Report on Internal Audit - September to November 2017 (Pages 5 - 14)

To provide the Committee with a periodic report on the Internal Audit function for the period September to November 2017.

5 Report of Corporate Director (Corporate Services) - A.2 - Corporate Risk Update (Pages 15 - 38)

To present to the Audit Committee the Risk Management Framework and updated Corporate Risk Register.

6 Report of Corporate Director (Corporate Services) - A.3 - External Audit's Annual Audit Letter for the Year Ended 31 March 2017 (Pages 39 - 70)

To present to the Committee the External Auditor's Annual Audit Letter 2016/17.

7 Report of the Corporate Director (Corporate Services) - A.4 - Table of Outstanding Issues (Pages 71 - 80)

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

8 Exclusion of Press and Public

The Cabinet is asked to consider the following resolution:

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

9 **Report of Corporate Director (Corporate Services) - B.1 - Risk Based Verification Policy (Pages 81 - 92)**

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

Date of the Next Scheduled Meeting

The next scheduled meeting of the Audit Committee is to be held in the Council Chamber, Council Offices, Thorpe Road, Weeley, CO16 9AJ at 7.30 pm on Thursday, 22 March 2018.

Information for Visitors

FIRE EVACUATION PROCEDURE

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Your calmness and assistance is greatly appreciated.

**MINUTES OF THE MEETING OF THE AUDIT COMMITTEE,
HELD ON THURSDAY 21 SEPTEMBER 2017 AT 7.30 PM
IN THE COUNCIL CHAMBER, COUNCIL OFFICES, THORPE ROAD, WEELEY**

Present:	Councillors Coley (Chairman), Poonian (Vice-Chairman), Alexander and Hones (except items 9 – 11)
In Attendance:	Richard Barrett (Head of Finance, Revenues and Benefits Services), Clare Lewis (Fraud and Risk Manager), Craig Clawson (Principal Auditor) and Katie Sullivan (Committee Services Officer)
Also In Attendance:	Kevin Sulter (Executive Director – Ernest & Young) and Chris Hewitt (Audit Manager– Ernest & Young)

9. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

There were none.

Councillor Scott had emailed his apologies prior to the meeting, however, that email had not been seen until the following day.

10. MINUTES OF THE LAST MEETING

The minutes of the meeting of the Committee held on 22 June 2017 were approved as a correct record and signed by the Chairman.

11. DECLARATIONS OF INTEREST

There were none.

12. REPORT OF THE AUDIT AND GOVERNANCE MANAGER - A.1 - REPORT ON INTERNAL AUDIT - JUNE 2017 TO AUGUST 2017

The Committee had before them a periodic report (A.1) on the Internal Audit function for the period of June 2017 to August 2017.

It was reported that action had been completed to address a number of issues which had been raised in the Quality Assurance and Improvement Programme that had been reported at the previous meeting of the Committee.

The Council's Principal Auditor (Craig Clawson) informed the Committee that six audits had been completed in the period with Substantial or Adequate Assurance being achieved in four instances. The results of the remaining two audits had been addressed by circulation of the issues to Senior Managers with guidance regarding Constitutional requirements, it had been identified that further and more detailed work was required to be undertaken before opinions could be fairly formed and that this work was due to be undertaken shortly.

The Principal Auditor also informed the Committee of the current position in relation to:

- (i) Public Sector Internal Audit Standards;
- (ii) Independence of the Internal Audit Activity;

- (iii) Internal Audit Plan Progress;
- (iv) Quality Assurance;
- (v) Outcomes of Internal Audit Work;
- (vi) Procurement – Order Process Compliance;
- (vii) Management Response to Risk; and
- (viii) Management response to Internal Audit Reports.

Following discussion and questions by Members, it was:

RESOLVED that the contents of the report be noted.

13. REPORT OF THE CORPORATE DIRECTOR (CORPORATE SERVICES) - A.2 - AUDIT RESULTS REPORT 2016/17

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

- The External Auditor's Audit Results Report for the year ending 31 March 2017, and Letter of Representation for Members' consideration and approval in order to enable a final opinion on the accounts and value for money arrangements to be formally issued by the External Auditor;
- The Statement of Accounts 2016/17 for Members' consideration and approval for publication by the end of September 2017; and
- A revised Annual Governance Statement 2016/17 for Members' approval.

Ernest and Young's Executive Director (Kevin Suter) went through various sections of the report.

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

Following discussion, it was **RESOLVED**:

1. That in respect of the Audit Results Report for the year ended 31 March 2017, the Audit Committee:
 - (a) Considers and notes the contents of the report including the adjustments to the Statement of Accounts 2016/17 as set out on page 21 of that report;
 - (b) subject to (a) above, approves the management representation letter set out as Appendix D to the External Auditors Audit Results Report 2016/17;
 - (c) subject to (b) above, authorises the Head of Finance, Revenues and Benefits and Audit Committee Chairman or Vice Chairman to sign the management representation letter for forwarding to the External Auditor;
 - (d) subject to (b) and (c) above, approves for publication the audited Statement of Accounts for 2016/17, amended for the adjusted items identified; and
 - (e) approves a delegation to the Head of Finance, Revenues and Benefits in

consultation with the Chairman or Vice Chairman of the Audit Committee to make amendments to the management representation letter for forwarding onto the External Auditor and / or Statement of Accounts 2016/17 before publication, if further changes are recommended by the External Auditor following the completion of the outstanding areas of their work.

2. That in respect of the Council's Annual Governance Statement 2016/17, the Audit Committee:

(a) approves the revised Annual Governance Statement set out in Appendix A; and

(b) authorises, subject to 2(a) above, the Chief Executive and Leader of the Council to sign the Annual Governance Statement set out in Appendix A.

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

The Committee had before them a report (A.3) which presented the progress against outstanding actions identified by the Committee.

It was reported that the Table of Outstanding Issues had been reviewed and updated since it was last considered at the previous meeting of the Committee.

It was further reported that there were no significant issues to bring to the attention of the Committee, with updates provided against individual items, as set out in Appendix A to the report, or elsewhere on the agenda where appropriate.

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

Following discussion, it was **RESOLVED** that the progress made against the outstanding issues be noted.

The meeting was declared closed at 8.15 pm

Chairman

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AUDIT COMMITTEE

25 JANUARY 2018

REPORT OF AUDIT AND GOVERNANCE MANAGER

A.1 REPORT ON INTERNAL AUDIT – September 2017 to November 2017

(Report prepared by Craig Clawson)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To provide a periodic report on the Internal Audit function for the period September 2017 – November 2017.

EXECUTIVE SUMMARY

- 10 audits were completed in the period, all of which achieved a satisfactory level of assurance.
- Plan adjustments have been identified taking account of the Council's current needs.
- The External Quality Assessment of the Councils Internal Audit function has been completed and the final report received – summary of main issues are detailed within the body of this report
- The proposed budget for Internal Audit for 2018/19 provides sufficient resources to enable the current level of provision to be maintained

RECOMMENDATION(S)

That: -

- (a) The report be considered and noted;
- (b) the changes to the Internal Audit plan as detailed in the report be approved;
- (c) the Committee approves the appointment of the Head of Finance, Revenues and Benefits to the role of Head of Internal Audit in the interim period whilst the future structure of Internal Audit is considered; and
- (d) the Committee considers the proposed Internal Audit budget for 2018/19 and determines if it has any comments.

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 AND ROLE OF HEAD OF INTERNAL AUDIT**

The Public Sector Internal Audit Standards require the Audit and Governance Manager, in their role as Chief Audit Executive / Head of Internal Audit, to make arrangements for reporting periodically to senior management (Management Board) and to the board (Audit Committee).

Following the recent retirement of the Audit and Governance Manager it is a requirement of the relevant CIPFA Code of Practice that the Council appoints an alternative Officer to undertake the role of Head of Internal Audit.

It is proposed to appoint the Head of Finance, Revenues and Benefits to the role of Head of Internal Audit for an interim period whilst a restructure of the Internal Audit Service is considered, which will provide a longer term appointment to the role.

However to ensure the independence required of the role, it is proposed to delegate the day to operation of delivering an effective Internal Audit Service to the current Principal Auditor via acting up arrangements to the role of Audit and Governance Manager.

The Head of Finance, Revenues and Benefits will support The Principle Auditor where necessary via a consultative approach as appropriate, to enable him to independently undertake the relevant duties set out in the Cipfa Code of Practice. The Principle Auditor will therefore retain the required independence to report directly to the Chief Executive, Management Team, and the Audit Committee as they feel necessary to ensure there is no undue influence from the Head of Finance, Revenues and Benefits.

An associated recommendation is set out above seeking the Committee's agreement to the above approach.

Although an Interim period is proposed, it is likely that this will continue until the end of the first quarter of 2018/19. However updates will be provided to the Committee during this time.

INTERNAL AUDIT PLAN PROGRESS

Internal Audit Plan Progress

The Internal Audit Plan approved by the Audit Committee in March 2017 has been kept under review, in accordance with the requirements of the Public Sector Internal Audit Standards.

A number of changes are proposed to reflect the current priorities within Corporate Services and as part of the on-going rebalancing of the level of resources within the Internal Audit over the course of the year.

The changes proposed are: -

Payments Received – Remove Audit and add available days elsewhere (10 days)

Payments Received is an income collection audit that reviews how cash is collected across the Council. However, the audit plan already includes related Sundry Debtors, Parking Services, Princes Theatre and Cash Receipting audits. Therefore the only aspect left is the Cash Collection Contract with a third party contractor. This is regularly monitored and any major issues would be identified in the Bank Account audit where Bank Reconciliations are reviewed, therefore reducing the risk of fraud and error.

It is proposed to use the 10 days from the above audit and add them to the Risk Management audit increasing the available days to 20. This would provide flexibility to support the Fraud & Risk Manager in developing a Risk Management Framework that reflects the organisations risk appetite and correlates directly with Internal Audits own risk assessment process.

Audits requested to be deferred:-

Corporate Counter Fraud (10 Days)

Internal Audit already ensure fraud prevention controls are in place in all audits, so this audit is deemed to be lower risk compared to those due to take place in quarter four. It also provides time for the recently established Fraud and Risk Team to embed new and revised practices which will form part of future audit work.

Departmental Procurement (15 Days)

Two 15 day procurement audits were proposed for Quarters three and four within the audit plan. A consultative review is already in progress whereby Internal Audit are supporting the Procurement Manager to help deliver an effective mandatory training programme for all staff involved in procurement. This will allow the Internal Audit function to have input during the creation of a process and ensure risks are mitigated before the process begins. Along with restricting access to procurement systems and processes if relevant officers fail to attend the training proposed, risk is reduced and therefore at this time it is deemed that the 15 days allocated for procurement in quarter four are no longer required.

At 30th November 2017, a total of 26 audits have been completed within the audit plan. 10 of which were completed in the September – November period.

Appendix A provides details of the status for each audit as at November 2017.

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 10 audits have been completed and the final report issued with the outcomes summarised in the table below. 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		4	8	
Adequate		6	13	
Improvement Required		0	3	
Significant Improvement Required		0	0	
Not Stated		0	2	

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

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 current position for high severity issues is as follows: -

Status	Number	Comments
Overdue more than 3 months	0	
Overdue less than 3 months	0	Regular reminders are issued to relevant managers to establish that corrective action has been taken / encourage resolution of each issue
Not yet due	9	

EXTERNAL QUALITY ASSESSMENT

The PSIAS states that an Internal Audit function must have an “**external assessment to be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation**” in order to evidence compliance with the standards.

The assessment was completed in October 2017 by the External Assessor and the Final Report has now been received.

The report confirms that the Council generally conforms to the expectations of the PSIAS and sets out a number of areas of good practice already undertaken within the Internal

Audit Service. Attention is drawn to a number of areas where the Council could make further improvements and include:

- Internal Audit Planning
- Reporting of Audit Opinions
- Follow up of Recommendations
- Annual Reporting by the Head of Internal Audit

On further review of the areas highlighted, the common theme identified primarily relates to risk and associated factors and the need to align departmental and corporate risk with each area of work undertaken by the Internal Audit Service. These issues are under review in conjunction with the development of the Internal Audit Plan for 2018/19. Both the Internal Audit Plan 2018/19 and further details on the outcome from the external assessment are scheduled to be reported to the Audit Committee in March 2018.

The outcomes from the external assessment overlap with the small number of outstanding items previously reported to Audit Committee as part of the self-assessed Quality Assessment Improvement Programme. These items will therefore now form part of the actions to be undertaken as part of the above.

INTERNAL AUDIT BUDGET 2018/19

The Council's Constitution was updated in 2015 to enable the Audit Committee to "**consider the annual budget for the Internal Audit service as part of the Council's budget setting process**" based on a requirement within the Public Sector Internal Audit Standards (PSIAS).

The proposed budget for Internal Audit for 2018/19 is currently £178,890 (The comparable figure for 2017/18 was £174,240). This figure could change as a result of decisions made by Cabinet or Council. The Internal Audit Team will also be going through its own restructure which could also alter the budget in the coming months. If there is any significant change made, this will be drawn to the Committee's attention in the Annual Internal Audit Plan report at its March 2018 meeting.

The work required to establish the audit needs assessment, and the resource plan, for 2018/19 is currently underway and will form the basis of the above report, but at this stage there are no concerns in respect of the level of resources available in 2018/19.


BACKGROUND PAPERS FOR THE DECISION




Audit Reports




APPENDICES




Appendix A – Internal Audit Plan 2017/18 Progress Report

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Audit Subject	Status December 2017	Opinion	Comments
<u>AUDITS SCHEDULED TO COMMENCE IN 2016/17</u>			
<u>2016/17 Internal Audit Plan</u>			
<u>Assurance Work – Key Systems</u>			
Business Rates	Completed	Substantial Assurance	Reported June 2017
Corporate and Ethical Governance	Completed	Adequate Assurance	Reported June 2017
Corporate Procurement Review			
Ordering Compliance	Completed	Not Stated	Reported Sept 2017
Departmental Procurement			
Public Realm Procurement	Completed	Not Stated	Reported Sept 2017
Housing Benefit	Completed	Substantial Assurance	Reported June 2017
Payments Received	Completed	Adequate Assurance	Reported June 2017
Sundry Debtors	Completed	Improvement Required	Reported June 2017
<u>Assurance Work – Other Systems</u>			
Building Control	Completed	Adequate Assurance	Reported Sept 2017
Grants / Financial Assistance	Completed	Adequate Assurance	Reported June 2017
Housing Repairs and Maintenance	Completed	Adequate Assurance	Reported June 2017
Risk Management	Completed	Improvement Required	Reported June 2017
<u>Assurance Work – Computer Audit</u>			
I T Governance	Completed	Substantial Assurance	Reported June 2017
I T Project Management	Completed	Adequate Assurance	
Uniform Application Review	Completed	Improvement Required	Reported June 2017

Audit Subject	Status December 2017	Opinion	Comments
<u>AUDITS SCHEDULED TO COMMENCE IN 2017/18</u>			
<u>2017/18 Internal Audit Plan</u>			
<u>Assurance Work – Key Systems</u>			
Banking	Fieldwork		
Business Rates	Allocated		
Corporate and Ethical Governance	Completed	Substantial Assurance	
Council Tax	Draft Report		
Creditors	Completed	Adequate Assurance	
Departmental Procurement	Allocated		Advisory / Consultancy Approach Detailed in Periodic Report
Housing Benefit	Fieldwork		
Housing Rents	Fieldwork		
Main Accounting System	Allocated		
Payments Received	Deferred		Request to remove from Audit Plan additional days allocated to Risk Management
Payroll	Completed	Substantial Assurance	
Sundry Debtors	Allocated		
Treasury Management	Draft Report		
<u>Assurance Work – Emerging Key Projects</u>			
Audits to be arranged	Allocated		

Audit Subject	Status December 2017	Opinion	Comments
<u>Assurance Work – Other Systems</u>			
Asset Management Coast Protection	Fieldwork Completed	Substantial Assurance	 Grant Funding Assessment for ECC – No issues reported
Corporate Counter Fraud	Unallocated		
Departmental Governance Operational Services	Draft Report		
Departmental Staff Allowances and Time Chief Executive and Management Support Planning and Regeneration	Completed Completed	Adequate Assurance Adequate Assurance	Reported Sept 2017 
Engineering Services Health and Safety	Draft Report Allocated		
Housing Repair and Maintenance Kitchen and Bathroom Replacement Contract Heating Refurbishment Contract	Draft Report Allocated		
Insurance	Completed	Substantial Assurance	Reported Sept 2017
Licensing	Allocated		
Member Support	Completed	Adequate Assurance	Reported Sept 2017
Parking Services	Allocated		
Princes Theatre and Essex Hall	Completed	Adequate Assurance	
Planning Policy	Unallocated		
Regeneration and Inward Investment	Unallocated		
Risk Management	Allocated		
S106	Unallocated		
Walton – on – the – Naze Lifestyles	Draft Report		

Audit Subject	Status December 2017	Opinion		Comments
<u>Assurance Work – Computer Audit</u>				
Cash Receipting Application Review	Completed	Adequate Assurance		
Human Resources / Payroll Application Review	Completed	Substantial Assurance		
IT Governance	Allocated			
IT Infrastructure	Completed	Adequate Assurance		
IT Support	Allocated			
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

25 JANUARY 2018

REPORT OF CORPORATE DIRECTOR (CORPORATE SERVICES)

A.2 CORPORATE RISK UPDATE

(Report prepared by Clare Lewis)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To present to the Audit Committee the Risk Management Framework and updated Corporate Risk Register.

EXECUTIVE SUMMARY

- The Corporate Risk Register is regularly updated and presented to the Audit Committee every 6 months.
- The following table summarises the position at the end of the period under review with updated information provided within the register where necessary:

Item	Number
New Risks Added	0
Risks Removed	0
Risk Score Amended	1
Items Under Review	0
Risks Subject to Amendment	6

RECOMMENDATION(S)

That the Audit Committee notes the updates to the current Corporate Risk Register.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

Risk assessment, monitoring and control forms the central tool for managing the strategic risks that may prevent the Council from achieving the corporate priorities as identified in the Corporate Plan and associated corporate goals.

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

The risk management approach can be delivered within existing budgets.

Risk

The subject of risk and its management by the Council is set out in the main body of this report.

LEGAL

There are no specific legal implications.

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 other direct implications.

PART 3 – SUPPORTING INFORMATION**BACKGROUND**

The Corporate Risk Register was last presented to the Committee in June 2017.

The Terms of Reference for the Audit Committee include a responsibility to provide independent assurance of the adequacy of the risk management framework and the associated control environment. The Corporate Risk Register is therefore brought to the Committee at six monthly intervals to enable the Committee to fulfil its role.

CURRENT POSITION**Corporate Risk Management Framework**

Although no changes have been identified as being required at this time, the framework is included at **Appendix A** for information only.

Corporate Risk Register

Since the Corporate Risk Register was reported to the Audit Committee in June 17, no new risks have been identified – this will continue to be reviewed throughout the year, and changes will be reported to the committee in the next meeting in June 18 as part of the six monthly review cycle.

For completeness, the following table sets out all amendments to the Risk Register since it was last considered by the Committee.

Risk Register Item	Amendments / Comments
New Risks Identified	None
Risks Removed	None
Risk Scores Amended	One Item 7a Local Plan (reduced from 16 to 12 to reflect the latest position)
Risk under review	None

<p>Risks Amended</p>	<p>1b Catastrophic IT network failure – Target review changed to ongoing from July 17 to reflect the development time associated with this project over recent months.</p> <p>1c Ineffective communication / management of information - Target review changed to ongoing from September 2017 to reflect the latest position with the associated projects.</p> <p>2c Community Leadership Projects – Minor change to the warning indicator relating to the monitoring and feedback.</p> <p>5a Financial Strategy – Minor changes to the ‘ We Control the Risks by’ and ‘Warning Indicators’ columns to reflect new long term financial sustainability plan/10 year forecast.</p> <p>6c Disconnection from PSN Network - Target review changed to remove references to previous review dates.</p> <p>7a Local Plan – Minor update provided within the ‘We Control the Risks by’ column to reflect partnership working and commissioning of advice where necessary.</p>
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During the year a review was carried out by the councils internal audit team relating to risk Management. The following table sets out the recommendations identified and the current position against each action:

Agreed Action	Current Position
<p>Management Team to promote the importance of operational risk management within the organisation and ensure that Senior Managers implement a process for identifying and mitigating risks in coordination with the Corporate Fraud and Risk Manager.</p> <p>One to one meetings are to take place between Senior Managers and the Corporate Fraud and Risk Manager to identify and record key operational risks within their service areas. Support to be provided by Internal Audit if required.</p>	<p>Management Team are currently working with the Fraud and Risk Manager to effectively promote the importance of operational risk management within the Council. The Corporate Fraud and Risk Manager will be attending Management Team meetings on a quarterly basis and provide monthly updates.</p> <p>One to one meetings have been booked with senior managers and reviews of the Council’s departmental risk registers are being undertaken.</p>

	<p>Any gaps identified will be included in the next corporate risk register update.</p> <p>Update to be provided at the next Audit Committee in June 2018.</p>
<p>Once all departmental risk registers are implemented, the Corporate Fraud and Risk Manager is to embed a quality control process for monitoring business risks and verifying the recorded mitigating controls. This should involve process walkthrough's, reviews of supporting documentation and assessments of target dates / resources required to implement controls</p>	<p>The Corporate Fraud and Risk Manager has arranged one to one meetings with senior managers to discuss business risks, once identified the findings will be reviewed on a more regular basis.</p> <p>Update to be provided at the next Audit Committee in June 2018.</p>

BACKGROUND PAPERS FOR THE DECISION
None

APPENDICES
<p>Appendix A – Risk Management Framework Appendix B – Corporate Risk Register</p>

Tendring
District Council



RISK MANAGEMENT FRAMEWORK

January 2018

1. INTRODUCTION

Risk management is an essential element of good governance. CIPFA / Solace in their “Delivering Good Governance in Local Government” guidance note (2016) identify as a core principle of good governance that authorities “**manage risks and performance through robust internal control and strong public financial management**”.

Risk management is not about being risk averse, it is about being risk aware. For the Council to make the most of its opportunities and to achieve its objectives, the Council will be exposed to risk. By being risk aware and understanding its risk appetite, the Council will be better able to take advantage of opportunities and mitigate threats.

To secure maximum benefit for Tendring District Council, the risk management framework must be integrated with departmental planning. Risk registers must be regularly reviewed and must be meaningful, consistent and current.

This framework is to ensure that the Council has a robust yet proportionate approach to risk management.

2. THE NEED FOR RISK MANAGEMENT

Risks are uncertainties that matter and may impact on the delivery of the Council's objectives and services. Risk exposure to the Council arises from the functions and activities it undertakes. Risk exposure will also arise as the Council increases its partnership and multiagency work – whilst control of risks in such instances may be outside of the Council's direct control, the risk exposure needs to be taken into account within the risk management process.

Risk management is the systematic method of identifying, assessing, prioritising, controlling, monitoring, reviewing and communicating risks associated with any activity, function or process in a way that enables the Council to minimise the threats it is exposed to and to maximise the opportunities for achievement of its objectives.

The Council acknowledges that risk management plays a key role in better informed decision making and in assisting in the support and delivery of key objectives, projects and services. It aids in creating an environment that: -

- Maximises opportunities
- Minimises threats
- Adds value

3. THE MANAGEMENT OF RISK

Risk exposure occurs at all levels within the Council. Therefore the Council's approach to risk is that it must be addressed on an integrated basis with everyone having roles and responsibilities for its management.

Risks are managed by evaluating the inherent and residual risks applicable, scored to provide a risk rating, which are then assessed taking account of the Council's risk tolerance / appetite.

Risks are captured, and managed at two levels: -

Corporate Risks

Corporate risks are those risks that potentially impact on the delivery of the Council's goals and objectives. They may include issues that have the potential to fundamentally affect service delivery or provision.

Corporate risks will be controlled in the Corporate Risk Register, owned by Management Team.

Operational Risks

Operational risks are those that potentially impact on the routine service delivery of the Council.

Operational risks are recorded in registers maintained by each department of the Council, and embedded in the departmental planning process. Each register is owned by the relevant Corporate Director / Head of Department.

4. RISK MANAGEMENT ROLES AND RESPONSIBILITIES

Audit Committee	Provides independent assurance of the adequacy of the risk management framework and the associated control environment	Receives reports on risk management at least twice each year
Management Team	The maintenance and review of the Corporate Risk Register	Receives updated Corporate Risk Register on a regular basis
Corporate Directors / Heads of Department / Senior Managers	Provide updates on any Corporate Risk where identified as Action Owner	Provide update monthly to Corporate Services
	The maintenance and review of Departmental Risk Registers	Provide update monthly to Corporate Services
Audit and Governance Manager (Governance Role)	Maintenance of the Corporate Risk Register taking into account updates from Management Team, Corporate Directors / Head of Department / Senior Managers	Submit Corporate Risk Register to Management Team on a regular basis
	Support Departments in the continued development and maintenance of Departmental Risk Registers ensuring content is consistent with this framework Review and update of Risk Management Framework	As required As required
Audit and Governance Manager (Internal Audit Role)	Maintenance of Internal Audit Universe and Audit Plans, and the undertaking of audits taking account of risks within Corporate and Departmental Risk Registers	Ongoing
	Audits of Risk Management process at Corporate and Departmental level	Annually
	Reporting on any significant risk exposures for consideration of inclusion in the appropriate Risk Register, identified from the work of Internal Audit.	As required
All Employees	Taking of reasonable steps to manage risk effectively in their roles	Ongoing

5. RISK REGISTERS

Risk registers are working documents that support senior management in the running of the Council.

Risk Registers will use a standard format, and record:

- A reference number for the risk
- Risk details
- Inherent risk scores and rating
- Identified controls in place to mitigate each risk
- Warning indicators
- Action owner
- Target / Review Date
- Residual risk scores and rating
- An indicator of direction of travel of each risk

The Corporate Risk Register will be structured to highlight high level corporate risk themes, with each containing detail of the identified corporate risks within that theme.

Whilst using the standard format, Departments can order risks to suit their own needs. Departments must though consider in preparing Departmental Risk Registers the exposure to risk across all of their functions, and the requirements of this framework. Registers must include all risks that would materially affect the operation of each department's activities.

The Council's Risk Registers take account of two forms of risk: -

Inherent Risk This is the level of risk that is **present before the application of any controls**. Measured by evaluating the impact and probability of the risk to calculate an Inherent Risk Rating.

Residual Risk This is the level of risk **remaining after application of controls**. The Residual Risk Rating is calculated on the same basis as for inherent risk, but factoring in any changes in impact and probability arising from the controls in place to mitigate the inherent risk.

Risks must be scored taking into account the scoring elements detailed in this framework, to provide a consistent approach across the Council.

Having identified each risk, and taking account of the extent of exposure to the Council, consideration should be given as appropriate to the level of exposure whether that risk should be:

Treated Procedures and controls in place or added that enable that risk to be mitigated to an acceptable level.

Tolerated It is not cost effective, or feasible, to address the risk, therefore the risk is accepted. This may not be acceptable where the risk is scored as High.

Transferred The risk is transferred to another body, eg by obtaining insurance cover. It will not be possible to transfer all types of risk.

Terminated Cease doing the activity that creates the risk exposure. Often this will not be possible.

Within the Council's Risk Registers it is expected that most risks identified will either be Treated or Tolerated.

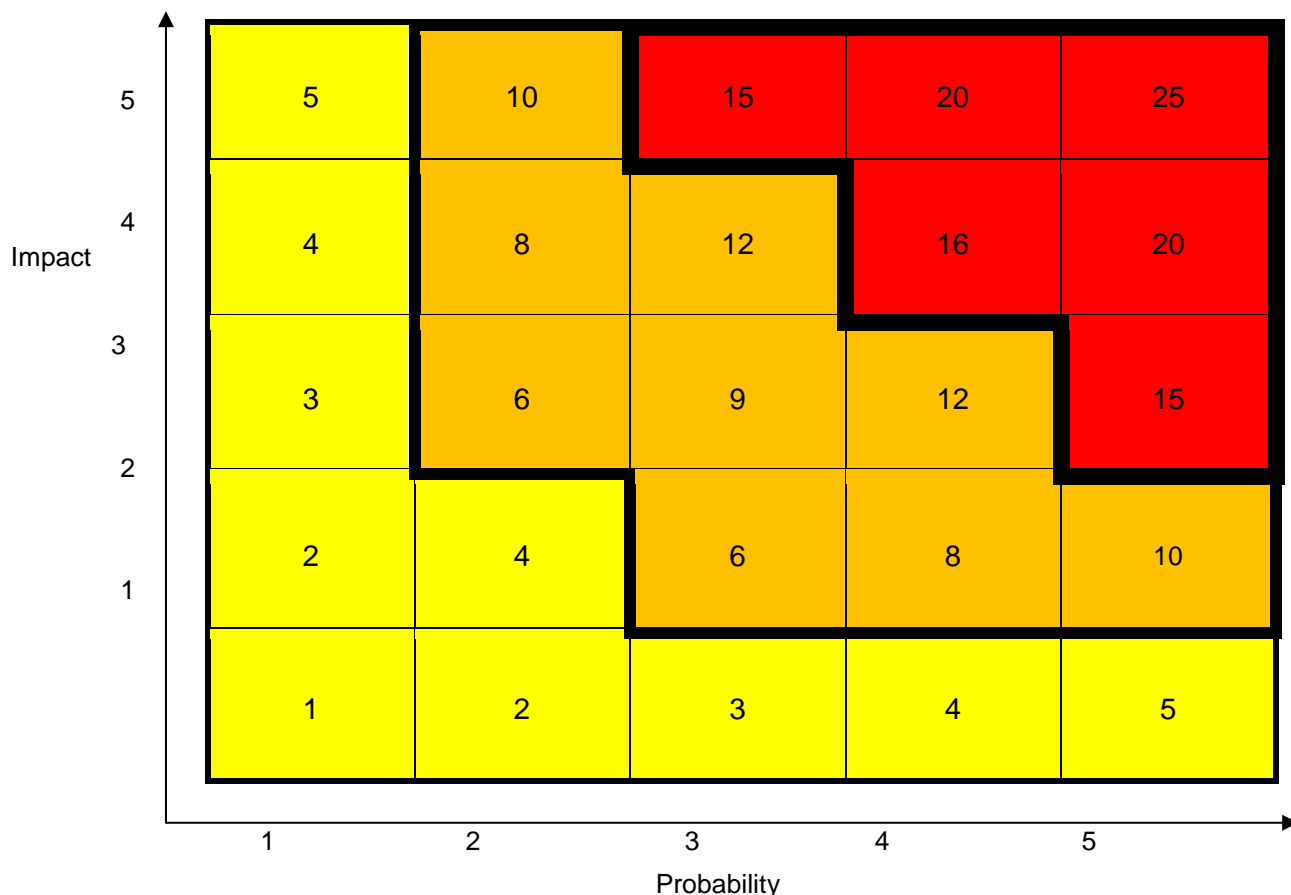
6. RISK RATING ELEMENTS - IMPACT

Risk level	Impact				
	Level	Financial	Service Delivery	Safety	Reputation
5	Critical	Loss of more than £1m	Effective service delivery is unachievable.	Fatality (Single or Multiple)	Reputation damage is severe and widespread i.e. Regulatory body intervention
4	Major	Loss above 250K but below £1m	Effective service delivery is severely disrupted in one or more areas	Multiple serious injuries requiring professional medical treatment	Reputation damage occurs with key partners.
3	Sizeable	Loss above £25K below £250K	Effective service delivery is disrupted in specific areas of the Council.	Injury to an individual(s) requiring professional medical treatment	Reputation damage is localised and/or relatively minor for the Council as a whole
2	Moderate	Loss above £5K below £25K	Delays in effective service delivery	Minor injury - no professional medical treatment	Slight reputation damage
1	Minor	Loss of up to £5K	Minor disruption to effective service delivery i.e. Staff in unplanned absence for up to one week	No treatment required	Reputation damage only on personal level

7. RISK RATING ELEMENTS - PROBABILITY

Timescale → ↓ Probability	Up to 6 months	To 12 months	To 24 months	To 60 months	60+ months
Over 80%	5	4	3	2	1
65%-80%	4	4	3	2	1
50 – 64%	3	3	3	2	1
30 – 49%	2	2	2	2	1
Less than 30%	1	1	1	1	1

8. RISK MATRIX



Impact x Probability = Overall Risk Rating

20

High Risk (Rating of 15 -25)

Risks at this level will be considered to be above the Council’s risk tolerance level. These risks require immediate attention and, as a high priority, a plan should be put together to provide sufficient mitigation resulting in a lower rating for the residual risk, wherever possible.

Management Team should regularly review any risks in the Corporate Risk Register where the mitigated level remains above the risk tolerance level.

Where a risk in a Departmental Risk Register scores at this level, consideration will be given to any corporate impact, and whether there is a need for the risk to be considered within the Corporate Risk Register.

12

Medium Risk (Rating of 6 – 12)

Controls should be put in place to mitigate the risk, wherever possible, especially where the risk is close to the risk tolerance level, or is increasing over time. However where the options for mitigation would not provide value for money, the risk may be tolerated.

4

Low Risk (Rating of 1 – 5)

No action required to mitigate these risks.

9. RISK REGISTER FORMAT

Corporate Risk Register (Example of format)

Risk No	Risk Details	Inherent Risk			Controls We control the risk by:	Warning Indicators	Action Owner	Target/ Review Date	Residual Risk			Contribution to / Secondary Risk Supported	
		Impact 1-5	Probability 1-5	Inherent Risk Rating					Impact 1-5	Probability 1-5	Residual Risk Rating		
1	Failure to deliver key services												
1a	Failure to effectively manage assets	5	3	15	Bringing the management of assets together within a dedicated team rather than devolved across the organisation. Implementing and developing an Asset Strategy and associated delivery plan and ensuring an effective and flexible property dealing policy	Loss of developments or transactions	Andy White	Summer 15	3	2	6		2 & 3

Departmental Risk Register (Example of format)

Risk No	Risk Details	Inherent Risk			Controls We control the risk by:	Warning Indicators	Action Owner	Target Date	Residual Risk			Contribution to / Secondary Risk Supported	
		Impact 1-5	Probability 1-5	Inherent Risk Rating					Impact 1-5	Probability 1-5	Residual Risk Rating		
FP1	Accountancy - Accounts not approved by statutory deadline	5	2	10	Detailed timetable drawn up, regular/weekly meetings of Accountancy staff to monitor progress. liaison with External Auditor Controls adequate with normal staffing levels.	Significant adverse issues emerging from work of external audit	Richard Bull	No outstanding actions	2	2	4		

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Corporate Risk Register January 2018

Tendring
District Council



INTRODUCTION

The management of Risk is a key element to any organisation in order to protect its resources (human & physical), finances and reputation. By undertaking regular, stringent and structured analysis of the risks faced by the organisation senior managers are able to take strategic decisions to mitigate against such risks whilst still being able to take the necessary decisions for a progressive council.

This document explains the methodology used to analyse and identify the risks which are considered to be of a sufficient level to be monitored corporately. The process of identifying risks is a linear examination at service, departmental and subsequently corporate level. It is only by undertaking a thorough and detailed risk assessment that this can be achieved.

Each risk is assessed for the likelihood of the risk occurring, as well as the potential impact of such an occurrence. The combination of these two factors gives an initial risk rating. Each risk is then 'managed' by the implementation of control measures. It is then re-assessed to give a residual risk rating.

Only risks which would have a significant corporate-level impact upon the ability of the Council to undertake its normal service delivery, finances, safety, or reputation are reported at this level.

DEFINITIONS

Risk: A risk is an event or action which may adversely affect the Council. It can arise from the possibility of not realising opportunities as well as from a threat materialising. Risk management is embedded across the organisation and forms part of each directorate's everyday function. They follow the format '[x...] leading to [y...] resulting in [z]'. Please note that as we increase our partnership and multi-agency work, risks become increasingly complex as controls may become out of our direct control.

Inherent risk: This is the level of risk that is present before controls have been applied. Measured by evaluating the impact and probability of the risk to calculate an Inherent Risk Rating.

Residual risk: This is the level of risk remaining after application of controls. The Residual Risk Rating is calculated on the same basis as for inherent risk, but factoring in any changes in impact and probability arising from the controls in place to mitigate the inherent risk.

Control: Controls are a key mechanism for managing risk and are put in place to provide reasonable assurance. Examples of controls can include policies and procedures adopted, progression of ongoing actions, or implementation of recommendations resulting from internal audits.

Warning indicators: These are the mechanisms or issues that will highlight that the risk is not being mitigated by the controls identified, or to the extent expected. These can be internal or external to the organisation.

RISK RATING CATEGORIES

20

High Risks (Rating of 15-25)

- Risks at this level will be considered to be above the Council's risk tolerance level. These risks require immediate attention and, as a high priority, a plan needs to be put together to provide sufficient mitigation resulting in a lower rating for the residual risk, wherever possible.
- Management Team should regularly review any risks in the Corporate Risk Register where the mitigated level remains above the risk tolerance level.
- Where a risk in a Departmental Risk Register scores at this level, consideration will be given to any corporate impact, and whether there is a need for the risk to be considered in the Corporate Risk Register.

12

Medium Risks (Rating of 6-12)

- Controls should be put in place to mitigate the risk, wherever possible, especially where the risk is close to the risk tolerance level, or is increasing over time. However where the options for mitigation would not provide value for money, the risk may be tolerated.

4

Low Risks (Rating of 1-5)

- No action required to mitigate these risks.

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CORPORATE RISK REGISTER –JANUARY 2018

Risk No	Risk Details	Inherent Risk			Controls We Control the risk by:	Warning Indicators	Action Owner	Target / Review Date	Residual Risk			Contribution to / Secondary Risk supported	
		Impact 1-5	Probability 1-5	Inherent Risk Rating					Impact 1-5	Probability 1-5	Inherent Risk Rating		
1	Failure to deliver key services												
1a	Failure to effectively manage assets	3	3	9	Implementing and developing an Asset Strategy and associated delivery plan and ensuring an effective and flexible property dealing policy Adopted by full council in May 2017 new office practice completed	Loss of developments or transactions	Andy White	Ongoing	2	2	4	↓	2 & 3
1b	Catastrophic IT network failure	5	3	15	Cisco -based corporate network replacement works completed Nov'14 (excluding Weeley Offices due to closure plans under office transformation). Additional resilience of removing single points of failure and dynamic routing implemented. New wireless network available at all main council offices (including Leisure Centres). The wireless network itself offers additional resilience subject to where a network fault/damage occurs. NOTE: Reference Weeley, the majority of staff now have new laptops so could work from alternate locations(s) should a significant issue occur. Resilience built into other IT Investment Strategies including 'mirrored' data storage at Town Hall and Barnes House and enhanced data backup. Management Team / Cabinet are scheduled to consider a proposal to move to a more risk-managed approach to our Disaster Recovery (DR) arrangements to reduce ongoing IT operating costs – data back up to Microsoft Azure 'cloud' platform as an alternative to replacement 'servers on a lorry' contract.	Network monitoring alarms	John Higgins	Ongoing	5	1	5	↓	2 & 3

Risk No	Risk Details	Inherent Risk			Controls		Warning Indicators	Action Owner	Target / Review Date	Residual Risk			Contribution to / Secondary Risk supported	
		Impact 1-5	Probability 1-5	Inherent Risk Rating	We Control the risk by:					Impact 1-5	Probability 1-5	Inherent Risk Rating		
1c	<p>Ineffective communication / management of information Failure to adopt, implement and foster effective communication and information systems with an adverse impact on the ability to deliver services or relationship with key stakeholders.</p>	5	3	15	<p>Tendring District Council has robust Information Governance policies and practices based upon shared Essex-wide 'best practice' Information Governance policies. We undertake quarterly information governance monitoring through our Information Governance Policy Unit (strategic) and the Information Security Management Group (operational). Our processes were successfully audited in June making just two minor improvement recommendations. The IDOX Electronic Document Records Management System (digital storage/ retrieval of paper records) continues to be rolled out corporately.</p>		Annual IT staff survey, Communications Group and Departmental IT Champions	John Higgins	Ongoing	5	2	10	↓	2 & 3
2	Failure to deliver key projects													
2a	<p>Coastal Defence The Council has a coastline of 60km and maintains the sea defence structures along 18.5km of this frontage. These defences protect the towns of Harwich, Dovercourt, Walton on the Naze, Frinton on Sea, Holland on Sea, Clacton and Brightlingsea. Unforeseen expenditure may be required on sea defences; which if left to deteriorate could cause catastrophic cliff failure and impact safety of residents/visitors nearby. The East Coast of the UK is vulnerable to a phenomenon called a North Sea Tidal Surge.</p>	5	1	5	<p>Carrying out annual inspections of coast protection structures and responding swiftly to public reporting of faults. An annual maintenance programme for the coastal frontage is set each year with an appropriate budget to cover the works. Each year sections of the sea defences are improved as part of a rolling programme of special maintenance schemes funded from the Council's Revenue Budgets. Works undertaken range from day to day maintenance of promenades and seawalls to schemes costing millions of pounds. Larger capital schemes attracting grant in aid are produced to comply with Defra guidelines and their High Level Targets for coast protection.</p>		Under Review	Damian Williams	Annually	1	1	1	↓	3

Risk No	Risk Details	Inherent Risk			Controls		Warning Indicators	Action Owner	Target / Review Date	Residual Risk			Contribution to / Secondary Risk supported
		Impact 1-5	Probability 1-5	Inherent Risk Rating	We Control the risk by:					Impact 1-5	Probability 1-5	Inherent Risk Rating	
2c	Community Leadership Projects Potential for impact to the reputation of the Council and impact on Communities, through failure to deliver key projects with partners.	4	3	12	Clearly defined ToR agreed between partners & TDC. Action plans agreed as appropriate for each project and reviewed on a regular basis.	Action plan not delivered (regular monitoring and feedback to CL&P Committee. Portfolio Holder and external boards)	Karen Neath / Anastasia Simpson / John Fox	Annually	4	2	8	↓	3
2d	Building Council Homes No lifting of borrowing cap impacts on ability to deliver.	4	2	8	Limited control available as risk is external. Whilst Lobbying will continue via ARCH/NFA little prospect of change at present time	Under Review	Paul Price	Annually	4	2	8	↔	-
2f	Ineffective delivery of Transforming Tendring project Failure to provide effective change management and the coordination of corporate resources with an adverse impact on organisational focus and delivery	5	3	15	Through the provision of effective organisational leadership through culture, change management, vision, values, communication and encouraging innovation and empowering staff.	To be reviewed once project proposal agreed by Members	Management Team (Martyn Knappett)	Monthly once project live	3	1	3	↓	3
2h	Essex Family / Family Solutions A TDC appointed Family Support Worker working within Tendring Family Solutions Team. Risks of the project include potential breaches of data protection, Council reputation and professional liability (working with vulnerable families)	5	3	15	Matrix management arrangements in place between TDC and ECC with clear workload management. The TDC FSW will be subject to the same control environment as other team members within Family Solutions. TDC has increased management capacity to oversee the FSW position.	Family complaints / non disengagement from statutory providers.	Anastasia Simpson	Ongoing	5	2	10	↓	3 & 6
Page 32	Garden Communities The project fails to come to fruition due to land control / Local Plan issues	3	4	12	Breakpoints exist which enable termination of the project if a scenario develops which provides unacceptable commercial viability	Landowner agreements not reached by time of Local Plan Pre Submission Draft Scheme not included in Local Plan Pre Submission Draft	Martyn Knappett	Ongoing	1	1	1	↓	7
	Reputational damage												
3a	Member Conduct	4	3	12	Regular reports to Standards Committee and discussions with Group Leaders	Number of Complaints increasing	Management Team (Lisa Hastings)	Monthly	4	1	4	↓	-
3b	Failure to comply with legislative requirements Risk of judicial reviews or injunctions being sought against the Council, causing delay in service delivery and financial loss to defend actions.	4	4	16	Ensuring that communication between the Directors and Service Managers with the Legal Team is kept up to date with regards to priorities and project planning. Regular discussions to be held between Services. Head of Governance and Legal Services to be kept informed of new developments through Management Team and Cabinet agendas.	Pre-action protocol letters being received for potential judicial review claims	Lisa Hastings	Ongoing	2	1	2	↓	-

Risk No	Risk Details	Inherent Risk			Controls		Warning Indicators	Action Owner	Target / Review Date	Residual Risk			Contribution to / Secondary Risk supported	
		Impact 1-5	Probability 1-5	Inherent Risk Rating	We Control the risk by:					Impact 1-5	Probability 1-5	Inherent Risk Rating		
3c	Health and Safety Failure to have effective health and safety processes in place exposing public and staff to increased risk of injury or illness	5	4	20	Identifying an officer with overall responsibility for ensuring that effective health and safety processes in place		Incident reports Inspection results	Richard Barrett	Ongoing	5	2	10	↓	-
3d	Fraud and Corruption Failure to deliver effective counter fraud activities	3	5	15	Established Fraud and Compliance Team undertaking counter fraud role Internal Audit Team providing advice / recommendations to improve control environment and mitigate exposure to fraud risks Rules and procedures as laid down in the Constitution		Frauds identified Procedures not being followed	Richard Barrett	Ongoing	2	5	10	↓	5, 8
Ineffective workforce management and planning														
4a	Loss of Key Staff Loss of key staff either through service changes or natural turnover impacting on delivery.	4	3	12	Effective HR Processes in place (being developed) to identify early signs of workforce issues (including age profile) and processes in place for recruitment of right skills. Skills focus and flexible approach across Council. "Grow your own staff"		Staff turnover rates / inability to recruit	Management Team (Anastasia Simpson)	Monthly	4	3	12	↔	1,2,6,7 & 8
4b	Lack of capacity to deliver core services	4	3	12	Identification of areas of key person dependency, skills and competency matching and corporate approach to the delivery of key services and projects through secondments / cross service working.		Staff turnover rates / inability to recruit	Management Team (Anastasia Simpson)	Monthly	4	3	12	↔	3 & 5

5	Failure to deliver a balanced and sustainable budget												
5a	Financial Strategy The impact of achieving a balanced budget in an ever-tightening financial environment on service delivery objectives.	5	4	20	<ul style="list-style-type: none"> • Long Term Financial Plan updated on an ongoing basis. • Financial Strategy / Forecast Preparation including identifying and capturing significant risks such as changes to government funding, and the identification of savings which will require some challenging decisions. • Robust and timely Budget Monitoring Processes. • Engagement with key stakeholders, members and senior management as early as possible. • Responding to and implementing recommendations and advice issued by the Council's External Auditor. • Material savings options to be individually risk assessed <p><i>(Although the risk has been managed down to a residual risk score of '15', the risk of delivering a sustainable budget remains significant in the early years of the new longer term approach to the forecast recently adopted)</i></p>	<p>Adverse financial forecasts within the long term financial sustainability plan</p> <p>Timing of decisions relating to savings not in line with the long term forecast.</p> <p>Adverse issues identified via the Corporate Budget Monitoring Process.</p> <p>Lack of actions / monitoring in response to recommendations and advice issued by the External Auditor.</p>	Richard Barrett	Ongoing	5	3	15	↓	1, 2, 3, 4 & 8

6		Ineffective management of information											
6a	Loss of sensitive and/or personal data through malicious actions loss theft and/or hacking	4	5	20	IT Health check (simulated vulnerability attacks) and resolution/ mitigation regime achieving compliance with central government National Security Cyber Centre (NCSC) security guidelines audited annually. Multi-firewall network segregation implemented with role-based access to systems necessary for work. Security is further strengthened through Citrix access control and segregation of Citrix managed access to different areas. Governance procedures/ policies/ responsibilities comments including quarterly review of all reported security breaches. All officer mobile devices (laptops, tablet and phones) are encrypted with complex passwords and are managed using Microsoft Mobile device Management (MDM) to further protect data. A corporate IT Service re-structure is estimated to be completed August 2017 with increased focus and training on cyber security. Recent purchase of enhancement module for corporate anti-malware software focussing on early detection/ isolation of Ransomware infection. Ongoing campaign to educate staff and members as to malware attacks e.g. phishing risks.	Security Incident report & ongoing staff awareness.	John Higgins	Ongoing	5	2	10	↓	3
Page 35 6c	Disconnection from PSN Network Failure to achieve PSN recertification resulting in disconnection from PSN services, e.g. DWP, IER etc. and urgent alternative arrangements to continue providing statutory service	5	4	20	This risk constitutes an annual cycle of IT security Health Check using a registered consultant, remediation/ resolution of any security issues identified then completion and submission of compliance documentation to central government national Cyber Security Centre (NCSC) for PSN recertification. Note: The Council remains at risk from any new CESG rules and ongoing further Whitehall hardening of security regulations on an ongoing basis. This can only be remediated through monitoring latest available guidance and/ or responding to NCSC challenges during the annual PSN process itself. Annual process currently awaiting further response from NCSC following their challenge/ acceptance of our latest IT Health Check submission.	PSN/ CESG communications, outcome of IT Health checks, monitoring/ discussion with IT Support partner(s).	John Higgins	On-going on an annual cycle and currently under review	5	1	5	↓	1, 2 & 3
6d	Virus / Malware Malicious code entering the TDC network and performing actions without consent	5	4	20	All TDC servers, desktops and laptops include Anti-Virus and Malware protection and are updated/ patched with latest software revisions. Standard users are further protected as admin rights are required to run executable and standard users do not have this level of access. All internet traffic is routed through our firewall and proxy server, both providing a further level of agreed security. All emails are routed through our email filtering system providing extra agreed security. User education - Staff are aware of what to do if they notice any suspicious activity which could be related to viruses/malware. Regular agreed backups are taken so that restores can take place if required.	Virus / malware production alerts. Users reporting unusual / suspicious activity. Monitoring programs alerting of suspicious activity	John Higgins	Ongoing	5	1	5	↓	1, 2 & 3
7		Failure to adopt a sound Local Plan											
7a	Local Plan Failure to achieve a positive result from the Examination in Public into the Local Plan submitted in October 2017.	4	4	12	A Local Plan Committee is in place to support the preparation of the local plan including consulting with the local community, other consultees and the Planning Inspectorate Officers work closely with North Essex Authorities, other partners and commission advice as necessary to submit a robust Local Plan in preparation for the examination in public.	Negative advice from external advisors or lack of agreement with partner authorities. .	Catherine Bicknell, Gary Guiver	Various	4	3	12	↓	3, 5 & 8

8	Failure of income streams to meet Council's financial requirements and obligations to other bodies												
8a	Failure to collect levels of income required from Council Tax in order to fund the Council's financial requirements.	5	4	20	Regular budget monitoring including reports to Cabinet by tracking payments against budgetary profile. Monitored monthly in the TDC Performance Report.	Income below profile	Richard Barrett	Monthly	5	2	10	↓	5
8b	Failure to collect income required from Non Domestic Rates in order to meet the shares between the Government, Essex County Council, Essex Fire Authority and Tendring District Council	5	4	20	Regular budget monitoring including reports to Cabinet by tracking payments against budgetary profile. Monitored monthly in the TDC Performance Report.	Income below profile	Richard Barrett	Monthly	5	2	10	↓	5
9	Failure in emergency and Business Continuity Planning												
9a	Ineffective Emergency Planning The Council fails to effectively respond to an emergency and the community is adversely effected	4	3	12	Continue to develop and regularly test the Council's Emergency Plan including working with necessary partner organisation. Emergency Planning now falls under the responsibility of The Head of IT and Resilience and following a Corporate IT Service re-structure, resources have increased by 0.5fte in Emergency Planning adding additional resilience and commencing succession planning.	Extreme weather / disaster	John Higgins	Ongoing	3	2	6	↓	3
Page 86	Ineffective Business Continuity Planning The Council fails to effectively respond to an emergency / adverse event with an adverse impact on the delivery of services	5	3	15	Development and testing of Business Continuity plans.	Loss of infrastructure/staff	John Higgins	Ongoing	3	2	6	↓	1, 2 & 3

APPENDIX – METHODOLOGY FOR CALCULATING RISK

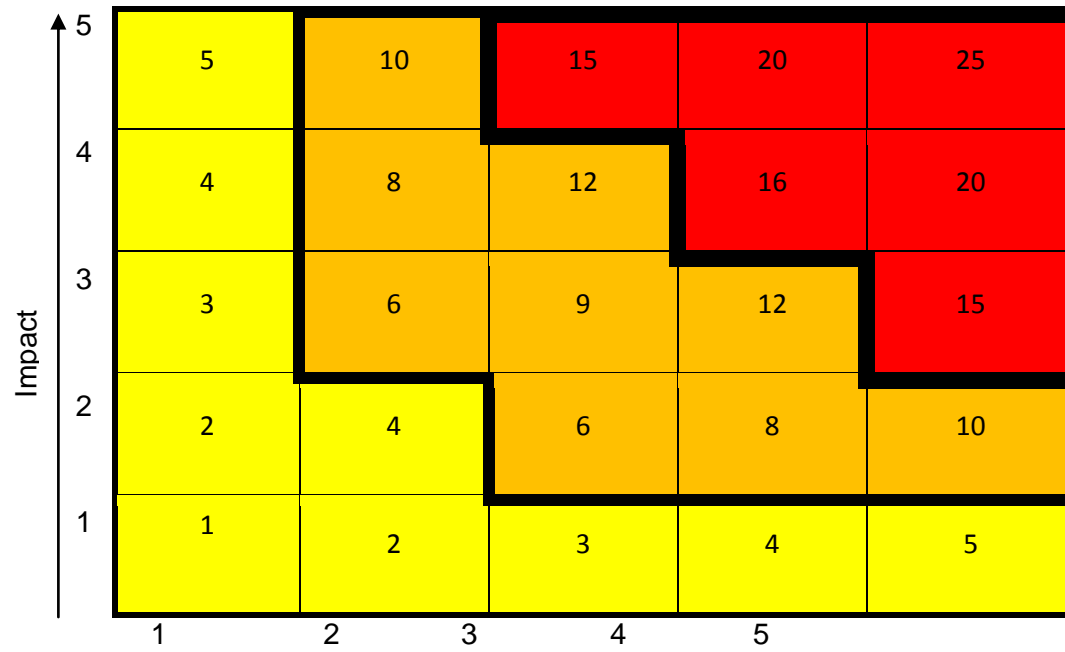
RISK RATING ELEMENTS - IMPACT

Risk level	Impact				
	Level	Financial	Service Delivery	Safety	Reputation
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2	Moderate	Loss above £5K below £25K	Delays in effective service delivery	Minor injury - no professional medical treatment	Slight reputation damage
1	Minor	Loss of up to £5K	Minor disruption to effective service delivery i.e. Staff in unplanned absence for up to one week	No treatment required	Reputation damage only on personal level

RISK RATING ELEMENTS - PROBABILITY

Timescale	Up to 6 months	To 12 months	To 24 months	To 60 months	60+ months
Probability					
Over 80%	5	4	3	2	1
65%-80%	4	4	3	2	1
50 – 64%	3	3	3	2	1
30 – 49%	2	2	2	2	1
Under 30%	1	1	1	1	1

RISK CALCULATION MATRIX



Impact x Probability = Overall Risk Rating

AUDIT COMMITTEE

25 JANUARY 2018

REPORT OF CORPORATE DIRECTOR (CORPORATE SERVICES)

A.3 EXTERNAL AUDIT'S ANNUAL AUDIT LETTER FOR THE YEAR ENDED 31 MARCH 2017

(Report prepared by Richard Barrett)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To present to the Committee the External Auditor's Annual Audit Letter 2016/17.

EXECUTIVE SUMMARY

The Annual Audit Letter for the year ended 31 March 2017 has recently been received from the Council's External Auditors which primarily summarises the outcomes from various audit activities undertaken during the year. The key messages set out in the letter highlight that the Council received an unqualified opinion on both its financial statements and value for money arrangements.

RECOMMENDATIONS

That the Audit Committee considers and notes the contents of the Annual Audit Letter for the year ended 31 March 2017.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

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

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

There are no direct financial implications arising from this report although a number of small additional fees are expected as highlighted on page 26 of the attached, which are expected to be able to be accommodated within existing budgets.

Risk

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

LEGAL

The Accounts and Audit Regulations require that:

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

OTHER IMPLICATIONS

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

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

PART 3 – SUPPORTING INFORMATION

ANNUAL AUDIT LETTER FOR THE YEAR ENDED 31 MARCH 2017

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

The **Annual Audit Letter** relating to 2016/17 is attached, with no significant concerns raised. Risks highlighted in connection with financial resilience / sustainability and the Garden Communities project were included within last year’s Annual Governance Statement with on-going updates provided to the Committee as part of a separate report elsewhere on the agenda.

External Audit has highlighted two issues for consideration in the future which are set out on page 24 of the attached. Responses to both issues form part of the work currently being undertaken to close the accounts and produce the Statement of Accounts for 2017/18 by the required deadlines.

BACKGROUND PAPERS FOR THE DECISION

None

APPENDICES

ATTACHED Annual Audit Letter for the year ended 31 March 2017

Tendring District Council

Annual Audit Letter for the year ended 31 March 2017

October 2017

Ernst & Young LLP

Page 41

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

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

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

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

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

Executive Summary

Executive Summary

We are required to issue an annual audit letter to Tendring District Council (the Council) following completion of our audit procedures for the year ended 31 March 2017.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's: ▶ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2017 and of its expenditure and income for the year then ended
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources

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

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 15 September 2017 and discussed with the Audit Committee on 21 September 2017
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 22 September 2017

In December 2017 we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken.

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

Kevin Suter
Associate Partner

For and on behalf of Ernst & Young LLP
United Kingdom

Purpose



Purpose

The Purpose of this Letter

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

We have already reported the detailed findings from our audit work in our 2016/17 Audit Results Report to the 21 September 2017 Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.



Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2016/17 audit work has been undertaken in accordance with the Audit Plan that we issued to the 16 March 2017 Audit Committee and has been conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2016/17 financial statements; and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by thy Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on you Whole of Government Accounts return. The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the return.

Responsibilities of the Council

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

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

Financial Statement Audit

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 22 September 2017.

Our detailed findings were reported to the 21 September 2017 Audit Committee.

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

Significant Risk	Conclusion
<p>Management override of controls</p> <p>A risk present on all audits is that 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.</p> <p>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</p>	<p>We did not identify any evidence of material management override.</p> <p>We obtained a full list of journals posted to the general ledger during the year, and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation. We had no matters to report.</p> <p>Our review of accounting estimates did not identify any evidence of management bias. We did not identify any instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business</p>

Significant Risk	Conclusion
<p>Revenue and expenditure recognition</p> <p>Auditing standards also required us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation. We respond to this risk by reviewing and testing material revenue and expenditure streams and revenue cut-off at the year end.</p> <p>For local authorities the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override. We therefore review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.</p>	<p>Our testing did not reveal any material misstatements with respect to revenue and expenditure recognition.</p> <p>Overall our audit work did not identify any issues or unusual transactions which indicated that there had been any misreporting of the Council's financial position. We did not find errors from testing cut-off processes.</p> <p>Our testing did not identify any expenditure which had been inappropriately capitalised.</p>
<p>Other - Presentation of the financial statements</p> <p>The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) this year required changes in the presentation of the financial statements.</p> <p>The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS). They also include a 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 new Code also required that the service analysis is based on the organisational structure under which the organisation operates.</p>	<p>Our testing did not identify any material misstatements in the 2016/17 statement of accounts.</p> <p>We identified that within the CIES the restated gross expenditure and gross income differed from the 2015/16 financial statements, each by £0.4m. The differences related to netting off external income against recharges. The issue did not have an impact on the previously reported surplus/deficit on the CIES or the general fund.</p> <p>No other issues were identified during our work performed in this area.</p> <p>The change in the Code required a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements. Together with investigation of the £0.4 million difference, this meant that we incurred extra costs in performing our audit as anticipated in our 2016/17 Audit Plan.</p>

Other Key Findings	Conclusion
<p>Other - Property, plant and equipment valuations</p> <p>Property, Plant and Equipment (PPE) represents a material item on the Council's balance sheet. PPE is initially measured at cost and then revalued to fair value (determined by the amount that would be paid for the asset in its existing use) on a 5 year rolling basis.</p> <p>This is carried out by an expert valuer and is based on a number of complex assumptions. Annually the valuer assesses assets to identify whether there is any indication of impairment.</p> <p>ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.</p>	<p>In 2016/17 the Council employed a new valuer, valuing its full portfolio. We assessed and were satisfied with the competency and objectivity of the Council's valuers.</p> <p>We undertook appropriate audit procedures to verify and critically challenge the basis of valuation adopted by the valuer in relation to the Council's property, focusing in particular on specialist assets which are valued on a depreciated replacement costs basis.</p> <p>The Council requested the valuer to value the Council's General Fund (GF) and Housing Revenue Account (HRA) assets as at 1 April 2016. The valuers produced a further report indicating that GF asset values would have increased by below 2%, but by 2.3% for HRA Properties by 31 March 2017. The Council's trigger for assessing whether to amend the accounts is 2%, However, the Council declined to increase HRA values in the context of an overall £126m balance. We accepted as an estimate on this specific account that no further action was required. However, if the Council sets a trigger it should apply it consistently. Such movements may be avoided if the Council moved to a later valuation date than 1 April each year.</p>
<p>Other - Pensions valuations and disclosures</p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within their financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body.</p> <p>The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's Balance Sheet.</p> <p>The information disclosed is based on the IAS19 report issued to the Council by the actuaries to the Essex Pension Fund.</p> <p>As part of their actuarial review, Councils are being asked to make additional payments to the pensions scheme to fund deficits.</p>	<p>We have assessed and are satisfied with the competency and objectivity of the Council's actuaries.</p> <p>EY pension's team considered the work of PwC (the Consulting Actuary to the NAO) who reviewed the work of the actuaries.</p> <p>We considered the assumptions used by the actuary and adopted by the Council to be generally acceptable. The sensitivities surrounding these assumptions have been correctly disclosed in Note 31 to the financial statements. We challenged the significant movement in the actuarial valuation and found no indication of management bias in this estimate.</p> <p>However, we do consider that the methodologies used to derive the discount rate and Retail Price Index inflation assumptions to be optimistic and do not take adequate account of the specific duration of the scheme's liabilities. In future years, this could potentially lead to unacceptable assumptions.</p>

Other Key Findings	Conclusion
<p>Other – Narrative Report</p> <p>We reviewed the information presented in the Narrative Report for consistency with our knowledge of the Council.</p>	<p>We recommended that for 2017/18, in order to comply with the Code of Practice, the Council enhances the reporting of non-financial performance information in the Narrative Report to include comparative data for all indicators and to provide a commentary on significant changes between years.</p>

Our application of materiality

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

Item	Thresholds applied
<p>Planning materiality</p>	<p>We determined planning materiality to be £2.2 million (2015/16 £2.1 million), based on 2% of gross revenue expenditure and interest payable of £112.5 million.</p> <p>We consider gross revenue expenditure on services to be the principal considerations for stakeholders in assessing the financial performance of the Council.</p>
<p>Reporting threshold</p>	<p>We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.1 million (2015/16 £0.1 million)</p>

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

- Remuneration disclosures including any severance payments, exit packages and termination benefits: Our audit strategy was to check the disclosures and bandings reported in the Council's financial statements, test the completeness of the disclosure and ensure that the disclosures were compliant with the Code Audit Practice. We sample checked transactions back to the payroll system and supporting documentation. Management amended the Remuneration Report to correct mis-allocated payments made as regards Employer's Contributions to Pension; and
- Related party transactions: Our audit strategy was to obtain and review declarations from Audit Committee Members and senior officers for any material disclosures and to ensure the Council's disclosures were compliant with the Code. We carried out a sample check of Companies House searches to identify whether any key decision-makers in the council had any interests in any companies undertaking work for the Council to test the completeness of the disclosure. We had nothing to report from our audit work.
- Members Allowances. Our audit strategy was to test the completeness of the disclosure and make sure that the disclosure was compliant with the Code by sample checking transactions back to the payroll system and the Council's Constitution. No issues were noted.

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

A close-up, shallow depth-of-field photograph of a stack of coins. The coins are stacked vertically, with the edges of several coins visible. The lighting is warm, highlighting the metallic texture and the ridges on the edges. A bright yellow rectangular box is overlaid on the left side of the image, containing the text 'Value for Money'.

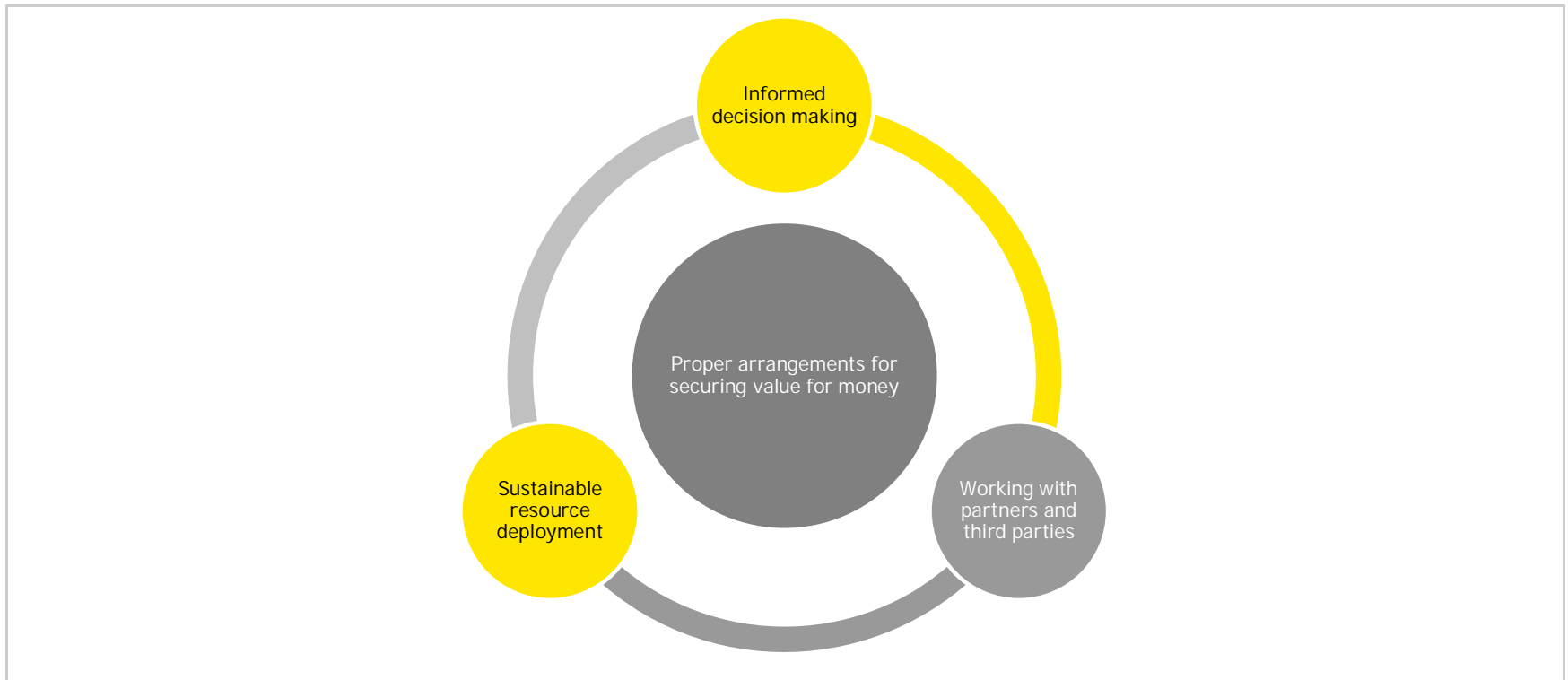
Value for Money

Value for Money

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

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

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



Initially, we identified two significant risks in relation to these arrangements, as outlined in our audit plan. During 2017, we identified a new significant risk in respect of a change in established policy for the acquisition of commercial property. We have undertaken audit procedures to address these risks. We did not identify any significant weaknesses in the Council’s arrangements to ensure it deployed resources to achieve planned and sustainable outcomes for taxpayers and local people, worked with Partners and Third Parties and took properly informed decisions.

We therefore issued an unqualified value for money conclusion on 22 September 2017. The table below presents the findings of our work in response to this risk.

Significant Risk	Conclusion
<p>Sustainable resource deployment: Financial resilience – achievement of savings needed over the medium term</p> <p>The Council faces significant financial challenges over the next three to four years, with a forecast underlying budget gap of £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>The process for setting the Council’s budget is sound. We concluded that the Medium Term Financial Plan identifies the key assumptions expected to underpin the 2017/18 budget. We recommended that more detail be provided to show how future budget gaps are derived. The latest September 2017 Cabinet Report addresses this recommendation.</p> <p>We judge that there are no pressing concerns that financial austerity is impacting on Council’s performance. Of fourteen key indicators reported, only four are below target for 2016/17: Financial Self-Sufficiency: (£0.558m 2017/18 budget gap covered by reserves); Recycling rates: (25.4% against 29% target); Planning Applications: 40% of major schemes (60% target) and Complaints: 86% completed on time (100% target).</p> <p>The Head of Finance, Revenues and Benefits internal working papers suggest a budget gap of £4.6 million to March 2021. As at 31 March 2017, The Council had identified savings plans to the value of £2.9 million to 31 March 2020, although supporting detailed plans had not all been completed or risk assessed as to success of delivery.</p> <p>As at 31 March 2017 total useable reserves are £29.6 million including the £4 million General Fund reserve. Of these reserves. £16.6 million relate to commitment reserves to fund specific projects by Members. Should these be spent, the remaining earmarked reserves available to the Council are £9 million, which still covers the gap.</p> <p>Therefore, based on the known information as at the end of the financial year, we assess the Council to have adequate arrangements in place to address the gap.</p> <p>Management’s September 2017 report sets out a new ten year approach to budgeting, aimed at maximising savings opportunities whilst delivering growth in underlying income to deliver a balanced budget over a ten year forecast. However, this depends upon the use of £3.7 million reserves profiled to 2024/25. Using non-recurrent reserves is not a sustainable approach to addressing budget gaps. The Council needs to secure the income growth and risk assess and deliver its savings plan, especially should austerity continue.</p>

Significant Risk	Conclusion
<p>Work with Partners and Third Parties: Essex Garden Communities Project</p> <p>Over the past eighteen months, the Council jointly with Colchester Borough Council, Braintree District Council and Essex County Council has developed proposals for Garden Communities in North Essex, including one on the Tendring and Colchester border.</p> <p>The aim of the Garden Communities 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.</p> <p>As a new and significant arrangement there may be risks relating to the governance and accounting arrangements for the establishment of the project that affect the Council.</p>	<p>We have undertaken the procedures as set out in our audit strategy which have focused on gaining an understanding of the governance structure in place to manage the garden community project.</p> <p>Our work performed demonstrates that the North Essex Garden Communities project between the four Councils is being governed appropriately and that there is a strong working relationship between the parties.</p> <p>The Council has sourced a peer review, performed by Lord Kerslake. The review looked at the current approach to delivering Garden Communities in North Essex. All four Authorities have responded positively and in a timely manner to the recommendations provided in Lord Kerslake's peer review.</p> <p>Given the early stage of the project we are likely to revisit this issue as the project develops.</p>

Significant Risk	Conclusion
<p>Informed decision making: The change in established policy for the acquisition of commercial property</p> <p>In 2015/16, the Council introduced a policy for the purchase of properties for investment. The policy envisaged a modest level of investment with a sum of £0.750m being included within the Capital Programme for property acquisitions. This approach was to enable the Council to reflect on the success of investments to inform future decisions.</p> <p>During our audit, the Head of Finance, Revenues and Benefits informed us that that the Council had the opportunity to acquire a property beyond this level.</p> <p>As a material change to the existing policy we considered there could be risks around the governance arrangements to support the acquisition and the reporting to those Members responsible for taking the decision whether to purchase or not.</p>	<p>As a new risk during the year, we devised an audit strategy and undertook procedures which focused on:</p> <ul style="list-style-type: none"> • Reviewing the report to Cabinet setting out the details for the terms for the acquisition; • Considering the due diligence report undertaken by management in line with the policy; and • Assessing how the report acknowledged the risks associated with the acquisition to inform Members in their decision-making. <p>Our work highlighted improvements to the report and the due diligence document. In particular, we requested that, to aid their decisions, the report drew Members’ attention to the risk that the price of property can fall as well as increase over time and how management aim to mitigate this risk.</p> <p>We note that the intention is for management to report the performance of the portfolio to Members on a half yearly basis with any changes in risk being reported at that point in time. We recommend that management report any significant changes to the terms of the acquisition promptly.</p>

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. We had no issues to report.

The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

Annual Governance Statement

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

Management amended the Annual Government Statement to record the required improvement for risk management as highlighted by Internal Audit and the actions taken to address.

Report in the Public Interest

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

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

Written Recommendations

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

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

Objections Received

We did not receive any objections to the 2016/17 financial statements from member of the public.

Other Powers and Duties

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

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 21 September 2017. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

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

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

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in the financial statements. However, we reported the matter below in our Audit Results Report. The matter reported is limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported.

Description	Impact
Our audit work highlighted that neither the Council nor the contractor had signed one of the four contracts which we had tested and that the contract did not specify the contractor.	The Monitoring Officer has confirmed that the legal conditions exist for the contract to be enforceable. However, best practice is for all contracts to be signed by all parties. We note that the contract is due for renewal in 2019. New tendering procedures should ensure signed agreements of contracts as part of the procurement process in future.

A close-up photograph of a person's face as they look through a pair of black binoculars. The person's eyes are visible through the eyepieces, and their hands are holding the binoculars. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Focused on your future".

Focused on your
future

Focused on your future

Area	Issue	Impact
<i>Earlier deadline for production and audit of the financial statements from 2017/18</i>	The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>To prepare for this change the Council has reviewed and amended the closedown process over the last year. Through working together, we agreed areas for early work in the 2016/17 audit which included testing of major income and expenditure streams based on information available in December 2016 to reduce testing at the final accounts audit in the Summer.</p> <p>We met with the Council's Finance Team on 21 September to reflect on the closure process for the 2016/17 financial statements. We both identified a number of areas where the closedown and audit processes can be further improved going forward.</p> <p>For 2017/18 we are planning for extensive testing across a number of areas based on November 2017 information, earlier completion of valuation and contract work and also the Value for Money conclusion by 31 March 2018.</p>
<p><i>Forthcoming changes to accounting standards:</i></p> <p><i>IFRS 9 Financial Instruments</i></p> <p><i>IFRS 15 Revenue from Contracts with Customers</i></p> <p><i>IFRS 16 Leases</i></p>	<p>Revised accounting standards are expected to be applicable for local authority accounts from the 2018/19 (IFRS 9 (financial Instruments) and IFRS15 (revenue) and 2019/20 financial year IFRS 16 (leases).</p> <p>Transitional arrangements are included within the accounting standards. However as the 2018/19 and 2019/20 Accounting Code of Practice for Local Authorities have yet to be issued it is unclear what the impact on local authority accounting will be and whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>CIPFA issued some initial thoughts on the approach to adopting IFRS 9 and IFRS 15, but until the Code is issued and any statutory overrides are confirmed there remains some uncertainty.</p> <p>For IFRS 16, it is clear is that the Council will need to undertake a detailed exercise to classify all of its leases and therefore must ensure that all lease arrangements are fully documented</p> <p>The Council is awaiting clarification of the exact requirements before investing time in the above work.</p>

Appendix A

Audit Fees



Appendix A Audit Fees

Our March 2017 Audit Plan recorded planned fees for 2016/17 in line with the scale fee set by the PSAA Ltd.

Description	Final Fee 2016/17 £	Planned Fee 2016/17 £	Scale Fee 2016/17 £	Final Fee 2015/16 £
Total Audit Fee – Code work	To Be Confirmed	58,708	58,708	61,566
Total Audit Fee – Certification of claims and returns	To Be Confirmed	15,475	15,475	13,110

We have undertaken extra work as a result of:

- The findings from changes to Comprehensive Income and Expenditure Statement required by the CIPFA Code of Practice on Local Authority Accounting for 2016-17;
- Our review the governance and reporting process as regards the change policy for the acquisition of commercial properties; and
- An increase in work due to the revaluation of the full asset portfolio, and delayed responses to our requests for asset valuation documentation.

We anticipate a scale fee variation will be necessary, which we will discuss in the first instance with the Head of Finance, Revenues and Benefits. We will update the Audit Committee on our proposed fee variation when this has concluded. Any variation to the 2016/17 scale fee is subject to approval by the PSAA.

Our certification of the housing benefits claim takes place in September and October 2017. We will confirm the final fees charged in our certification report to be issued to the Council in December 2017.

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

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

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ED None

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AUDIT COMMITTEE

25 JANUARY 2018

REPORT OF CORPORATE DIRECTOR (CORPORATE SERVICES)

A.4 AUDIT COMMITTEE – TABLE OF OUTSTANDING ISSUES

(Report prepared by Richard Barrett)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

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

EXECUTIVE SUMMARY

- The Table of Outstanding Issues has been reviewed and updated since it was last considered by the Committee at its 21 September 2017 meeting.
- To date there are no significant issues to bring to the attention of the Committee, with updates provided on individual items set out in **Appendix A** or elsewhere on the agenda where appropriate.
- Updates on actions identified within the latest Annual Governance Statement are set out in **Appendix B** with no significant issues to highlight at the present time.

RECOMMENDATION(S)

That the progress on 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 on issues and items that form part of its governance responsibilities.

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

Update On Issues Raised

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

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

In respect of reporting the latest position in terms of the legionella issue experienced at the Frinton and Walton Lifestyles facility, the Council has now finalised a Legionella Policy alongside undertaking a range of actions / activities in response to this issue. However the Health and Safety Executive's final report and recommendations is still awaited. As previously stated, once the Health and Safety Executives report is received, any further actions required will be reviewed and a further update provided to the Audit Committee.

As reported to the Committee in June, Internal Audit will undertake an independent audit of health and safety later this year and this will examine the robustness of the revised arrangements that have been introduced corporately for the management of the Council's health and safety risks and responsibilities, along with the arrangements for support to services when undertaking improvement actions. This audit will also include a review of the improvement actions taken regarding the specific issues that had been identified including those arising from the final recommendations from the Health and Safety Executive.

The Counter Fraud Strategy was rescheduled for presenting to this meeting of the Committee. Although work has progressed, the Department for Works and Pensions (DWP) has recently approached the Council to ask if it would be willing to work together and undertake joint fraud investigations where opportunities arise. Discussions remain on-going with the DWP and as this will have an impact on the Counter Fraud Strategy it has been agreed to defer this item until March 2018 to enable the associated arrangements to be finalised and reflected in the Strategy.

BACKGROUND PAPERS FOR THE DECISION

None

APPENDICES

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

Appendix B - Table of Outstanding Issues (January 2018) - Annual Governance Statement Actions
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AUDIT COMMITTEE - Table of Outstanding Issues (January 2018)

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	The insurer's risk engineer has recently completed their preliminary work following an inspection of the Council's premises late last year. They also met with the Council's Fraud and Risk Manager and Head of Building Services, with formal recommendations awaited.	Last Quarter of 2017/18
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+D8	The recent review of the constitution included the requirement for services to use the Council's updated standard contract terms unless otherwise agreed by the Monitoring Officer / S151 Officer. This will bring consistency to the Council's contract terms / clauses, which seek to protect the Council as far as reasonably possible whilst recognising that such requirements do not discourage contractors from bidding for Council contracts.	Completed

<p style="text-align: center;">Page 76</p> <p>The Council's Governance arrangements</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 was finalised and published during March 2017.</p> <p>Training for relevant officers has been arranged for late February 2018 which will be delivered in partnership with Internal Audit. As previously highlighted, the training will aim to reflect real life examples of the issues identified during the year and from the work of internal audit rather than just highlighting the requirements set out in the Constitution, which will therefore provide practical advice to officers involved in procurement activities.</p> <p>It is proposed to place restrictions within the Council's ordering / procurement processes to ensure only those officers who have undertaken this training and confirmed that they have read and understood any associated guidance can place orders and procure goods and services on behalf of the Council.</p>	<p>February 2018</p>
<p>The Council's Governance arrangements</p>	<p>Effective Monitoring of S106 Agreements</p>	<p>At its 16 March 2017 meeting, the Committee considered a S106 Update Report, following which it resolved that:</p> <ul style="list-style-type: none"> (a) the progress in relation to the Section 106 audit be noted; (b) a follow-up audit be undertaken in March 2018; and (c) the Section 106 Audit be added to the Table of Outstanding Issues 	<p>Head of Planning Services / Audit and Governance Manager</p>	<p>A follow up audit is included within the Internal Audit Plan.</p> <p>As previously reported, an officer has been recruited on a 2 year fixed term basis to support the administration of S106 agreements. Work also remains on-going in respect of the associated IT system and a further update will be provided to the Committee at its next meeting.</p>	<p>March 2018</p>

<p>Risk Management</p>	<p>Emergency Planning Arrangements</p>	<p>In light of the Grenfell Tower disaster in 2017, the Committee raised comments to Cabinet regarding the Council's own emergency planning arrangements and Cabinet's response was as follows:</p> <p><i>It is recognised that this is an important issue which has been brought into sharp focus by the tragic events at Grenfell Tower. It is also recognised that the Council's standing emergency planning procedures are robust and it is proposed to include a session on the Council's Emergency Planning arrangements at a future All Member's Briefing.</i></p>	<p>Corporate Director (Corporate Services)</p>	<p>This item has now been included within the All Member Briefing schedule.</p>	<p>Completed</p>
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AUDIT COMMITTEE - Table of Outstanding Issues (January 2018)

ANNUAL GOVERNANCE STATEMENT ACTIONS

ANNUAL GOVERNANCE STATEMENT ACTIONS		
Governance Issue	Action	Current Position / Update
Page 78	<p>Sustainable Resource Deployment: Achievement of Savings Needed over the Medium Term</p> <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 planned cuts in Government funding to the Council over the period 2017/18 to 2019/20, with expected savings of £3.4m being required.</p>	<p>A long term financial sustainability plan / 10 year forecast was agreed by Cabinet on 5 September 2017.</p> <p>Updated forecasts were presented to Cabinet in December 2017 and January 2018 along with a detailed budget for 2018/19, which was in-line with the forecast.</p> <p>Work is now underway in developing the necessary plan to deliver against the forecast going into 2019/20 along with considering how performance against the forecast can effectively be reported to Members on a regular basis.</p>
	<p>To continue to maintain strong governance arrangements as the Council transforms the way in which it provides and delivers its services.</p>	<p>The office rationalisation business plan was agreed in September 2017 and work is now underway to deliver this major project.</p> <p>A major digital transformation project is currently in the process of being finalised for reporting to Cabinet in February 2018.</p>
<p>Informed Decision Making: Garden Communities</p>	<p>To continue to play a key role in the development of the Garden Communities Project including key governance structures and financial arrangements set against open and transparent decision making.</p>	<p>Key decision making milestones are expected to be reached in 2018/19 with associated reports expected to be presented to Members later in the year.</p>
<p>Working with Partners and Other Third Parties: Jaywick Sands</p>	<p>To continue to work with Essex County Council and other partners to develop options for residential and other development. To develop options for a housing company and lead on the set up of a company.</p>	<p>Work remains in progress to take this major project forward and will form part of a wider Housing Strategy which is being developed for reporting to Members early in 2018/19.</p>
<p>Other Major Issues</p>	<p>To ensure deliverability of projects without impact on the day to day operations of the Council.</p>	<p>This forms part of business cases / plans when developing significant projects.</p>

	<p>To develop and maintain a robust corporate approach to delivery against the Council's health and safety responsibilities.</p>	<p>Health and safety responsibilities were brought together with risk management in 2017 under the leadership of the Fraud and Risk Manager within a dedicated team. Development of a robust corporate approach to delivery against the Council's health and safety responsibilities forms a key focus for this dedicated team over the remainder of 2017/18 and into 2018/19.</p>
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