



## AUDIT COMMITTEE

<b>DATE:</b>	<b>Thursday, 22 March 2018</b>
<b>TIME:</b>	<b>7.30 pm</b>
<b>VENUE:</b>	<b>Council Chamber, Council Offices, Thorpe Road, Weeley, CO16 9AJ</b>

### MEMBERSHIP:

<b>Councillor Coley (Chairman)</b>	<b>Councillor Hones</b>
<b>Councillor Poonian (Vice-Chairman)</b>	<b>Councillor Scott</b>
<b>Councillor Alexander</b>	

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

DATE OF PUBLICATION: Tuesday, 13 March 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 - 6)**

To confirm and sign as a correct record, the minutes of the last meeting of the Committee, held on Thursday 25 January 2018.

**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 Acting Audit and Governance Manager - A.1 - Report on Internal Audit (Pages 7 - 22)**

To provide the Committee with a periodic report on the Internal Audit function for the period December 2017 to February 2018.

**5 Report of the Acting Audit and Governance Manager - A.2 - Internal Audit Charter and Internal Audit Plan 2018/19 (Pages 23 - 34)**

To seek the approval of the Audit Committee for the Internal Audit Plan for 2018/19.

**6 Report of the Corporate Director (Corporate Services) - A.3 - External Audit's Audit Planning Report for the Year Ended 31 March 2018 (Pages 35 - 78)**

To present for consideration and agreement the External Auditor's Audit Planning Report for the year ended 31 March 2018.

**7 Report of the Corporate Director (Corporate Services) - A.4 - External Audit - Certification of Claims and Returns Annual Report 2016/17 (Pages 79 - 94)**

To present the External Auditor's certification of claims and returns annual report 2016/17.

**8 Report of the Corporate Director (Corporate Services) - A.5 - Audit Committee Work Programme 2018/19 (Pages 95 - 100)**

To present for approval the Audit Committee's proposed work programme covering the period April 2018 to March 2019.

**9**     **Report of the Corporate Director (Corporate Services) - A.6 - Table of Outstanding Issues (Pages 101 - 110)**

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

**10**     **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 11 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.”

**11**     **Exempt Minute of the Last Meeting held on Thursday 25 January 2018 (Pages 111 - 112)**

To confirm and sign as a correct record, the exempt minute of the last meeting of the Committee, held on Thursday 25 January 2018.

# **Information for Visitors**

## **FIRE EVACUATION PROCEDURE**

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## **MINUTES OF THE MEETING OF THE AUDIT COMMITTEE HELD**

**ON THURSDAY 25 JANUARY 2018**

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

**Present:** Councillors Coley (Chairman), Poonian (Vice-Chairman), Alexander, Hones and Scott

**In Attendance:** Head of Finance, Revenues & Benefits Services & Section 151 Officer (Richard Barrett), Committee Services Manager (Ian Ford) and Principal Auditor (Craig Clawson)

**Also in Attendance:** Chris Hewitt (Audit Manager – Ernst & Young)

**15. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

There were no apologies or substitutions on this occasion.

**16. MINUTES OF THE LAST MEETING**

The minutes of the meeting of the Committee held on 21 September 2017 were approved as a correct record and signed by the Chairman.

**17. DECLARATIONS OF INTEREST**

There were none on this occasion.

**18. REPORT OF THE AUDIT AND GOVERNANCE MANAGER – A.1 – REPORT ON INTERNAL AUDIT – SEPTEMBER TO NOVEMBER 2017**

The Committee had before it a periodic report (A.1) on the Internal Audit function for the period of September to November 2017.

The Council's Principal Auditor (Craig Clawson) informed the Committee that ten audits had been completed in the period of which four had been given Substantial Assurance and six had been given Adequate Assurance.

The Committee was aware that The Public Sector Internal Audit Standards required 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 Team) and to the board (Audit Committee). Following the recent retirement of the Audit and Governance Manager it was a requirement of the relevant CIPFA Code of Practice that the Council appointed an alternative Officer to undertake the role of Head of Internal Audit.

Members were informed that it was 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 was considered, which would, in turn, provide a longer term appointment to the role. However, in order to ensure the independence required of the role, it was proposed to delegate the day-to-day operation of delivering an effective Internal Audit Service to the Council's Principal Auditor via acting up arrangements to the role of Audit and Governance Manager.

The Committee was advised that the Head of Finance, Revenues and Benefits would support the Principal Auditor, where necessary, via a consultative approach, to enable him to independently undertake the relevant duties set out in the CIPFA Code of Practice. The Principle Auditor would therefore retain the required independence to report directly to the Chief Executive, Management Team and the Audit Committee as he felt necessary in order to ensure that there was no undue influence from the Head of Finance, Revenues and Benefits.

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

- (i) Internal Audit Plan Progress – Proposed removal of Payments Received Audit, deferral of Corporate Counter-Fraud and Departmental Procurement audits;
- (ii) Quality Assurance;
- (iii) Outcomes of Internal Audit Work;
- (iv) Management response to Internal Audit Findings;
- (v) External Quality Assessment – Assessor's Final Report; and
- (vi) Internal Audit Budget 2018/19.

Following discussion and questions by Members, it was moved by Councillor Scott, seconded by Councillor Alexander and:

**RESOLVED** that –

- (a) the contents of the report be noted;
- (b) the changes to the Internal Audit Plan, as detailed in the report, be approved; and
- (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 decided.

## **19. CORPORATE RISK UPDATE**

The Head of Finance, Revenues & Benefits Services & Section 151 Officer (Richard Barrett) presented to the Committee a report on the Risk Management Framework and the updated Corporate Risk Register.

It was reported that, within the period under review, no new risks had been added to the register, no risks had been removed, one risk score had been amended and there were no items that were currently under review. Risks had been amended in respect of –

- (1) 1b Catastrophic IT Network Failure;
- (2) 1c Ineffective Communication / Management of Information;
- (3) 2c Community Leadership Projects;
- (4) 5a Financial Straegy
- (5) 6c Disconnection from PCN Network; and
- (6) 7a Local Plan.

The Risk Score in respect of item 7a Local Plan had been reduced from 16 to 12 to reflect the latest position.

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

Agreed Action	Current Position
<p>Management Team to promote the importance of operational risk management within the organisation and ensure that Senior Managers implement a process for identifying and mitigating risks in coordination with the Corporate Fraud and Risk Manager.</p> <p>One to one meetings 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>

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

After consideration of this item it was **RESOLVED** that -

- (a) the contents of the updates provided to the current Risk Register be noted; and
- (b) the Head of Finance, Revenues & Benefits Services requests the Head of IT and Corporate Resilience to consider providing training to Members on aspects of cyber security.

**20. EXTERNAL AUDIT'S ANNUAL AUDIT LETTER FOR THE YEAR ENDED 31 MARCH 2017**

There was submitted a report by the Council's Corporate Director (Corporate Services), which presented to the Committee the External Auditor's Annual Audit Letter 2016/17.

The Committee was informed that the Letter primarily summarised the outcomes from various audit activities undertaken during the year. The key messages set out in the letter

highlighted that the Council had received an unqualified opinion on both its financial statements and value for money arrangements.

It was reported that, whilst no significant concerns had been raised relating to 2016/17, risks highlighted in connection with financial resilience / sustainability and the Garden Communities project had been included within last year's Annual Governance Statement with on-going updates provided to the Committee.

Chris Hewitt (Audit Manager – Ernst & Young, the Council's External Auditor) highlighted the salient points in the Annual Audit Letter and, in particular, two issues to consider in the future. Responses to both those issues formed part of the work currently being undertaken to close the accounts and produce the Statement of Accounts for 2017/18 by the required deadlines. Those two issues were –

- (1) earlier deadline for the production and audit of the financial statements from 2017/18; and
- (2) forthcoming changes to accounting standards IFRS 9 (Financial Instruments), IFRS 15 (Revenue from contracts with customers) and IFRS 16 (Leases).

Mr Hewitt also highlighted that a final decision was still awaited from PSAA Ltd in relation to a scale fee variation for the Audit Fee for 2016/17.

After consideration of this item it was -

**RESOLVED** that the contents of the Annual Audit Letter for the year ended 31 March 2017 be noted.

## **21. AUDIT COMMITTEE – TABLE OF OUTSTANDING ISSUES**

There was submitted a report by the Council's Corporate Director (Corporate Services) (A.4) which presented to Members the progress against outstanding actions identified by the Committee.

It was reported that there were no significant issues to bring to the attention of the Committee, with updates provided against individual items, as set out in Appendix A to item A.4 of the Report of the Corporate Director (Corporate Services), or elsewhere on the agenda where appropriate.

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

In respect of the latest position in terms of the legionella issue experienced at the Frinton and Walton Lifestyles facility, the Head of Finance, Revenues & Benefits Services informed Members that the Council had 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 was still awaited. Once that report was received, any further actions required would be reviewed and a further update provided to the Audit Committee.

The Head of Finance, Revenues & Benefits Services also informed the Committee that although work had progressed on the Counter Fraud Strategy the Department for Works and Pensions (DWP) had recently approached the Council to ask if it would be willing to work together and undertake joint fraud investigations where opportunities arose. Discussions remained on-going with the DWP and as this would have an impact on the



Counter Fraud Strategy it had been decided to defer this item until March 2018 in order to enable the associated arrangements to be finalised and reflected in the Strategy.

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

**22. EXCLUSION OF PRESS AND PUBLIC**

It was moved by Councillor Scott, seconded by Councillor Hones and –

**RESOLVED** that, under Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting during consideration of Agenda Item 9 on the grounds that it involves the likely disclosure of exempt information as defined in Paragraph 7 of Part 1 of Schedule 12A, as amended, of the Act.

The meeting was declared closed at 8.39 p.m.

Chairman

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## AUDIT COMMITTEE

22 MARCH 2018

### REPORT OF ACTING AUDIT AND GOVERNANCE MANAGER

#### A.1 REPORT ON INTERNAL AUDIT – DECEMBER 2017 TO FEBRUARY 2018

(Report prepared by Craig Clawson)

#### PART 1 – KEY INFORMATION

##### PURPOSE OF THE REPORT

To provide a periodic report on the Internal Audit function for the period December 2017 – February 2018.

##### EXECUTIVE SUMMARY

- Key findings and appropriate actions from the External Quality Assessment of the Council's Internal Audit function are detailed within the report. The Council's Internal Audit function is considered to be applying a consistent approach to ensuring compliance is achieved with the Public Sector Internal Audit Standards (PSIAS).
- Internal Audit Plan progress – six audits were completed in the period, five achieved a satisfactory level of assurance and one received an 'Improvement Required' opinion.

##### RECOMMENDATION(S)

That: -

- (a) The actions to be taken by the Internal Audit Team to incorporate recommendations made by the External Quality Assessor be considered and noted; and
- (b) the Internal Audit Plan progress to date be considered and noted.

#### PART 2 – IMPLICATIONS OF THE DECISION

##### DELIVERING PRIORITIES

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

##### FINANCE, OTHER RESOURCES AND RISK

###### Finance and other resources

The Internal Audit function is operating within the budget set.

###### Risk

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

## LEGAL

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

## OTHER IMPLICATIONS

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

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

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

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

There is no specific effect on any particular ward.

## PART 3 – SUPPORTING INFORMATION

### BACKGROUND

The Public Sector Internal Audit Standards require the Acting Audit and Governance Manager, to make arrangements for reporting periodically to senior management (Management Board) and to the board (Audit Committee).

### EXTERNAL QUALITY ASSESSMENT (EQA)

A brief overview of the EQA was provided at the previous Audit Committee meeting (25<sup>th</sup> January 2018). Further detail of the report content can now be provided including actions that will be taken to incorporate the recommendations made within working practices.

To provide further context to the Audit Committee, the categorisation of recommendations is provided below to understand the level of priority needed for each action.

Recommendation grading	Explanation
Enhance	The internal audit service must enhance its practice in order to demonstrate transparent alignment with the relevant PSIAS in order to demonstrate a contribution to the achievement of the organisations objectives in relation to risk management, governance and control.
Review	The Internal audit division should review its approach in this area to better reflect the application of the PSIAS.
Consider	The internal audit division should consider whether revision of its approach merits attention in order to improve the efficiency and effectiveness of the delivery of services

The majority of recommendations were graded as “Consider” and only one recommendation was graded as “Enhance”.

The Internal Audit function was assessed in three areas;

**Resource** - Business Vision and Mission, Governance arrangements, Recognition of

standards, Guidance, Procedures and Supervision, Terms of Engagement, Ethics and business conduct

**Competency** - Charter, Internal Audit Manual, Planning and Allocation of staffing, Recruitment (Numbers and skills), Training (Professional and Technical), Appraisal and Development

**Delivery** - Client engagement and relationship, Directed led service, Terms of Engagement (Audit/Assignment Brief), Discussion of assurance and advisory opinions, Reporting at assignment and strategic levels

An action plan has been provided (Appendix A) which includes all recommendations categorised as “Review” and “Enhance” for Audit Committee review. The action plan details how the Internal Audit Team will incorporate each recommendation into working practice with an estimated implementation date.

Conclusion;

The EQA reports that the Internal Audit Team are excelling in the area of ‘**Resource**’ and are established in the areas of ‘**Competency**’ and ‘**Delivery**’, recommending improvement actions that can be seen in Appendix A.

The report also states that *“The internal audit service has responded to the new standards in recent years and has moved towards a common approach that is consistent with the PSIAS”*

The common theme within the report is one of alignment between Internal Audit processes and Risk Management processes to provide consistency across the Council in its approach to and tolerance of risk. Further explanation on how the service proposes to implement / manage the findings is evidenced within the action plan (Appendix A)

## INTERNAL AUDIT PLAN PROGRESS

A total of seven audits have been completed in the December – February period. However, a further six audits had reached Draft Report stage. Appendix B provides details of the status for each audit as at February 2018. Any outstanding work on audits in progress as at 31<sup>st</sup> March will be rolled forward into 2018/19. An estimate of days required to complete any outstanding work will be included within the 2018/19 Internal Audit Plan.

As discussed at the previous Audit Committee meeting, days were made available to undertake a procurement review unlike other procurement audits completed in the past. Internal Audit was involved in the provision of procurement training to an estimate 160 Officers, alongside the S151 Officer and the Procurement Team. This has successfully been completed, raising some interesting discussions on procurement rules and providing useful information that can be used when scoping future procurement audits. A further session is required to include Officers that were unable to attend any of the four sessions made available.

As this was not a traditional audit review an overall audit opinion is not provided; however, assurance is gained in the knowledge that all Officers involved in procurement will have had the required procurement training to effectively undertake procurement exercises in their role.

**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 six audits have been completed and the final report issued. The Public Sector Internal Audit Standards require the reporting of significant risk exposures and control issues.

Assurance	Colour	Number this Period	Year to Date	
Substantial		1	12	
Adequate		4	24	
Improvement Required		1	6	
Significant Improvement Required		0	0	
No Opinion		1	1	

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

Issues arising from audits completed requiring reporting to Committee are: -

### Walton-on-the-Naze Lifestyles

The two main areas of concern within this audit were that of PCI DSS Compliance and the management of refunds. Some issues were raised relating to management of data which would leave the Council in breach of PCI DSS Compliance rules. Further investigation revealed that this is also the case at all leisure facilities.

It was also identified that approval processes and supporting documentation were found to be lacking regarding refunds and it was difficult to determine the volume of refunds processed throughout the year. There were also a number of moderate issues identified on income management which contributed to the overall opinion of 'Improvement Required'.

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

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

Status	Number	Comments
Overdue more than 3 months	0	
Overdue less than 3 months	1	Regular reminders are issued to relevant mangers to establish that corrective action has been taken / encourage resolution of each issue
Not yet due	10	

<b>BACKGROUND PAPERS FOR THE DECISION</b>
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Audit Reports
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<b>APPENDICES</b>
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Appendix A – External Quality Assessment Action Plan Appendix B – Internal Audit Plan 2017/18 Progress Report
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**“ENHANCE” FINDINGS**

	Issue Identified	Recommendation	Category	Action / Audit Response	Implementation Date
<p>7</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 13</p>	<p><b>Annual Report</b> The CAE produces an Annual Audit report which summarises the year’s work and includes analysis of performance. The opinion reflects;</p> <p><b>2015/16</b> <i>“Taking into account the issues identified in the audits included in the table above and listed in Appendix B, the issues identified during the investigation and referred to above, and reviews by other assurance providers, it is only possible to provide qualified assurance regarding the systems of internal control operated by the Council. It should be noted that significant control issues were identified only in a small number of the assignments completed, however these issues related to key systems.”</i></p> <p><b>2016/17</b> <i>“Taking into account the issues identified in the audits included in the table above and listed in Appendix B, and where appropriate reviews by other assurance providers, the governance arrangements were generally found to be sound and fit for purpose. However the wider risk exposure linked to some of the significant issues reported result in it only being possible to give a qualified assurance”.</i></p> <p>The form required by the PSIAS requires a wider statement which must also include <i>“significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board”</i></p>	<p>In alignment with recommendations made earlier, the internal audit plan should be constructed to provide an explicit link to risk, governance and control and reflecting the other assurances available so that the CAE is able to provide wider assurance to the Authority in support of the governance statement and in the terms specified within the PSIAS. Best practice is that the Annual Report should also contain reference to <b>all</b> significant (residual) risks and therefore co-ordination with and an understanding of issues being raised by the range of assurance sources available is essential in order to meet this broader scope. This links to the recommendations earlier regarding the need to progress the identification of those assurances which are available – where such assurance is considered to be significant (as in the case of PSN) then it would be beneficial to specify the source.</p>	<p>Enhance</p> 	<p>The 2018/19 audit plan has incorporated the External Quality Assessors recommendation.</p> <p>The audit plan for review and approval includes a number of different audit techniques that will be used to gain assurance. One of which is ‘Assurance Mapping’ which will consist of using reviews that may have already been undertaken by other assurance providers and placing reliance on those where possible.</p> <p>There may be occasions where some audit work may need to be undertaken to fill in the gaps identified. Overall this should reduce the time and resource needed in some areas to gain the assurance needed to provide an annual audit opinion.</p> <p>The 2017/18 annual report will incorporate the EQA’s recommendation and expand further on how assurance has been gained.</p>	<p>July 2018</p>


**“REVIEW” FINDINGS**

	Issue Identified	Recommendation	Category	Action / Audit Response	Implementation Date
1	<p><b>Evidence of supervision</b></p> <p>The current process of supervision provides for a documented record of the file review to be maintained although the process of supervision through engagement within the office throughout the assignment is not recorded.</p>	<p>The auditor undertaking each assignment should record on Pentana, within the file review, a summary of discussions held during the assignment which reflect effective input of the named supervisor (or others).</p>	<p>Review</p> 	<p>The Internal Audit Management System allows for ‘points’ to be raised during and at the end of each audit as part of the supervisory and quality review undertaken at the end of each audit. It is appreciated that not all discussions are recorded during the review process.</p> <p>Auditors will be working more independently in future with additional responsibilities; therefore monthly progress meetings will be required between the Audit Manager and Auditor. These discussions will be recorded and used as evidence of supervision.</p>	<p>April 2018</p>
2	<p><b>Audit of Ethics and Culture</b></p> <p>Particular attention is given within the standards to the audit of these areas which are at present considered as part of any review relating to the CIPFA SOLACE guidance.</p>	<p>It would be beneficial to identify these areas as specific assignments in future within internal audit plans in order to demonstrate full conformity with the standards.</p>	<p>Review</p> 	<p>Ethics and cultural review have always been included within the annual Corporate &amp; Ethical Governance review which is based on the CIPFA SOLACE guidance.</p> <p>For the 2018/19 plan it is believed that further exploration of ethics and culture will be included within the scope of the Corporate and Ethical Governance audit and if serious risks and issues are identified then individual reviews can be set up using contingency days or included within the following years audit plan.</p>	<p>December 2018</p>


**“REVIEW” FINDINGS**

	Issue Identified	Recommendation	Category	Action / Audit Response	Implementation Date
<p>3</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 15</p>	<p><b>Internal Audit Planning</b></p> <p>The IAS has moved significantly towards the use of risk based planning although the process is driven by the format of the Pentana system, the CAE has introduced a revised basis for maintaining the spreadsheet used to compile the Internal Audit Risk Assessment model from 2017/18.</p> <p>Nevertheless, greater alignment with Council risk management systems would be beneficial rather than internal audit maintain a separate view of risk.</p>	<p>Future internal audit planning should become increasingly based upon the Council’s risk management system in which the full recognition of key mitigating controls and assurances that these are effectively deployed would represent an essential basis for the focus and conduct of internal audit work</p>	<p>Review</p> 	<p>The Internal Audit Plan has always incorporated the Councils Corporate Risk Registers within the audit planning process; however it is recognised that the Internal Audit (IA) team do have their own records of business risks as they sit more at a departmental level. IA must also review internal control arrangements rather than just the mitigation of risk.</p> <p>IA is currently working with the Fraud and Risk Manager to find a way of aligning the Risk Management Framework with Internal Audits approach to risk. We are going to start by meeting with Senior Management and identifying what the organisations risk tolerance level is which will provide a base for building a consistent approach to risk across the authority.</p>	<p>September 2018</p>


**“REVIEW” FINDINGS**

	Issue Identified	Recommendation	Category	Action / Audit Response	Implementation Date
<p>4</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 16</p>	<p><b>Audit Opinions - Recommendations</b></p> <p>These are currently developed and assessed by each internal auditor, and reviewed by the Supervisor/Audit Manager prior to release of the draft report and which include a grading of the recommendations</p> <p>It is recommended that the classification should align with the risk definitions contained within the Council Risk Management strategy and that a specific date is agreed with client management regarding by which the action should be completed.</p> <p>In this way, communication with auditees may be enhanced through ensuring that a common risk theme is used throughout the Council’s operations including with Members.</p>	<p>Risk definitions used by internal audit should be developed to reflect the risk appetite within the organisation, and the definitions of impact and likelihood used by the Council.</p> <p>It is recognised best practice to use terminology such as High, Medium and Low or Fundamental, Significant and Merits attention and perhaps support this with RAG rated colours linked to the Council’s risk management system using the impact definitions that have been identified.</p> <p>These should be used by each internal auditor to grade the recommendation and discuss the level of risk to which the organisation is exposed with each auditee at the exit meeting.</p>	<p>Review</p> 	<p>The joint approach to risk management as indicated above will provide a basis for IA to assess impact and likelihood in a consistent manner with risk management.</p> <p>A new report template has also been developed using a more recognised terminology with RAG colours.</p> <p>Although IA have always used a RAG status approach with recommendations and issues raised it is appreciated that risk management terminology and IA terminology does not currently align.</p>	<p>September 2018</p>

**“REVIEW” FINDINGS**



	Issue Identified	Recommendation	Category	Action / Audit Response	Implementation Date
<p>5</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 17</p>	<p><b>Audit Opinions - Overall opinions</b></p> <p>These are currently based upon the personal judgement of each auditor, within the definitions specified as relating and subject to review by the supervisor and CIA of the draft report prior to release.</p> <p>The overall opinion is based on the risks/weaknesses identified although not in alignment with the level of risk identified.</p> <p>The basis for grading of recommendations should normally as a result influence the overall opinion for each audit directly, for example if a risk falling into a definition of the highest category is identified (potential for fatality, loss greater than £1m or severe reputational damage) then the assurance level given is reduced. Any risk of this nature should automatically trigger a negative audit opinion of ‘limited assurance’.</p> <p>Wider best practice provides for three levels of assurance opinion being substantial, adequate or limited as this provides a clearer indication to stakeholders of the level of assurance that can be gained. This opinion can then be aligned directly with the nature of the risks being identified and the grading of those recommendations being made. The use of the grading ‘significant Improvement Required’ is not used by the internal audit service.</p>	<p>The grading of reports should be based upon the level of risk exposure identified within the review and reflect the highest ranked recommendation being reported upon and therefore aligned with the risk appetite of the Council</p> <p>Best practice would reflect:</p> <ul style="list-style-type: none"> <li>- Where a fundamental risk (red) is identified that limited assurance is given.</li> <li>- Where significant risks (amber) are identified then adequate assurance is given, and</li> <li>- Where ‘merits attention’ (yellow) risks are identified these are not referred to in the report and substantial assurance is given.</li> </ul>	<p>Review</p> 	<p>Internal Audit currently uses four categories (<i>Substantial Assurance, Adequate Assurance, Improvement Required and Significant Improvement Required</i>) when providing an overall opinion to each audit with a clear definition of each assurance category and how it is reported within all Draft and Final Audit Reports.</p> <p>However, it is accepted that there is a difference between the definitions of assurance categories within Risk Management and the definitions used by Internal Audit. This will be approached when aligning risk management and internal audit processes.</p> <p>IA has not received any negative feedback to date from Auditees regarding the current overall assurance categories. Following review with Senior Management it is felt that the current assurance categories better reflect how we work locally, therefore we are not proposing to change them in the near future.</p>	<p>September 2018</p>

**“REVIEW” FINDINGS**





	Issue Identified	Recommendation	Category	Action / Audit Response	Implementation Date
6	<p><b>Follow up of recommendations</b></p> <p>The Internal Audit Service currently uses email as the mechanism through which action taken against those recommendations made is monitored. The service currently relies on assurance/evidence from client managers that actions have been taken and follows this up at next audit.</p>	<p>It is recommended that action in relation to those recommendations of a ‘high’ risk nature are evidenced by internal audit when due in order to provide appropriate assurance that the risk has been mitigated in a timely manner.</p>	<p>Review</p> 	<p>Audit findings are followed up monthly by the Acting Audit Manager via email. However, outstanding actions will not be signed off as implemented until evidence has been provided by the auditee.</p> <p>This can be a resource intensive administration process, therefore the new apprentice will be tasked with chasing responses and collecting evidence of implementation with oversight from the Audit Manager to ensure that the evidence provided is adequate.</p>	<p>April 2018</p>

\*Recommendations categorised as “Consider” are not included within this report; however they will be considered while reviewing internal processes going forwards

Audit Subject	Status February 2018	Opinion	Comments
<b><u>AUDITS SCHEDULED TO COMMENCE IN 2016/17</u></b>			
<b><u>2016/17 Internal Audit Plan</u></b>			
<b><u>Assurance Work – Key Systems</u></b>			
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
<b><u>Assurance Work – Other Systems</u></b>			
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
<b><u>Assurance Work – Computer Audit</u></b>			
I T Governance	Completed	Substantial Assurance	Reported June 2017
I T Project Management	Completed	Adequate Assurance	Reported Jan 2018
Uniform Application Review	Completed	Improvement Required	Reported June 2017

<b>Audit Subject</b>	<b>Status February 2018</b>	<b>Opinion</b>	<b>Comments</b>
<b><u>AUDITS SCHEDULED TO COMMENCE IN 2017/18</u></b>			
<b><u>2017/18 Internal Audit Plan</u></b>			
<b><u>Assurance Work – Key Systems</u></b>			
Banking	Fieldwork		
Business Rates	Fieldwork		
Corporate and Ethical Governance	Completed	Substantial Assurance	Reported Jan 2018
<b>Council Tax</b>	<b>Completed</b>	<b>Adequate Assurance</b>	
Creditors	Completed	Adequate Assurance	Reported Jan 2018
<b>Departmental Procurement</b>	<b>Completed</b>	<b>Not Applicable</b>	<b>Procurement training provided to 160 Officers</b>
Housing Benefit	Draft Report		
Housing Rents	Draft Report		
Main Accounting System	Draft Report		
Payments Received	Deferred		
Payroll	Completed	Substantial Assurance	Reported Jan 2018
Sundry Debtors	Draft Report		
<b>Treasury Management</b>	<b>Completed</b>	<b>Substantial Assurance</b>	
<b><u>Assurance Work – Emerging Key Projects</u></b>			
Garden Communities	Unallocated		
Jaywick Sands			Continuous liaison with Senior Management – not currently at a stage where Internal Audit can add value or where projects have progressed far enough for a full audit review.



Audit Subject	Status February 2018	Opinion	Comments
<b><u>Assurance Work – Other Systems</u></b>			
Asset Management	Draft Report	Substantial Assurance	Reported Jan 2018
Coast Protection	Completed		
Corporate Counter Fraud	Deferred		
<b>Departmental Governance</b>			
<b>Operational Services</b>			
<b>Completed</b>	<b>Adequate Assurance</b>		
Departmental Staff Allowances and Time			
Chief Executive and Management Support	Completed	Adequate Assurance	Reported Sept 2017
Planning and Regeneration	Completed	Adequate Assurance	Reported Jan 2018
<b>Engineering Services</b>			
<b>Completed</b>	<b>Adequate Assurance</b>		
Health and Safety			
<b>Housing Repair and Maintenance</b>			
<b>Kitchen and Bathroom Replacement Contract</b>			
<b>Completed</b>	<b>Adequate Assurance</b>		
Heating Refurbishment Contract			
Insurance	Completed	Substantial Assurance	Reported Sept 2017
Licensing	Fieldwork		
Member Support	Completed	Adequate Assurance	Reported Sept 2017
Parking Services	Fieldwork		
Princes Theatre and Essex Hall	Completed	Adequate Assurance	Reported Jan 2018
Planning Policy	Fieldwork		
Regeneration and Inward Investment	Fieldwork		
Risk Management	Fieldwork		
S106	Fieldwork		
<b>Walton – on – the – Naze Lifestyles</b>			
<b>Completed</b>	<b>Improvement Required</b>		

<b>Audit Subject</b>	<b>Status February 2018</b>	<b>Opinion</b>	<b>Comments</b>
<b><u>Assurance Work – Computer Audit</u></b>			
Cash Receipting Application Review	Completed	Adequate Assurance	Reported Jan 2018
Human Resources / Payroll Application Review	Completed	Substantial Assurance	Reported Jan 2018
IT Governance	Draft Report		
IT Infrastructure	Completed	Adequate Assurance	Reported Jan 2018
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

22 MARCH 2018

### REPORT OF ACTING AUDIT AND GOVERNANCE MANAGER

#### A.2 INTERNAL AUDIT CHARTER AND INTERNAL AUDIT PLAN 2018/19

(Report prepared by Craig Clawson)

#### PART 1 – KEY INFORMATION

##### PURPOSE OF THE REPORT

To seek the approval of the Audit Committee for the Internal Audit Plan for 2018/19.

##### EXECUTIVE SUMMARY

- The 2018/19 Audit Plan has been developed using a risk based approach, taking account of the Councils Corporate Objectives, Corporate Risks, Departmental Risks and Emerging Risks.
- It is proposed to deliver an Annual Audit Plan using the current resource establishment with the introduction of new audit techniques such as *Continuous Auditing, Assurance Mapping, Root Cause Analysis / Data Analytics, Lean Auditing, Self-Assessments and Consultancy / Advisory Services* as well as the introduction of a new apprentice.
- The plan will be kept under review during the year, in consultation with the Council's Management Team, and taking account of changes to the Council's priorities, operations and risk. Changes to the plan will be brought to the attention of the Committee for approval.
- Update on the Internal Audit Charter.

##### RECOMMENDATION(S)

- (a) That the Internal Audit Plan for 2018/19 be considered and approved; and**
- (b) That the existing arrangements for updating the plan during the year, where necessary to reflect changing Authority activity and operational needs and to provide flexibility of service delivery, be continued, with significant amendments reported to this committee as part of the periodic Internal Audit reporting arrangements.**

#### PART 2 – IMPLICATIONS OF THE DECISION

##### DELIVERING PRIORITIES

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

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

### **Finance and other resources**

The proposed 2017/18 Internal Audit Plan can be resourced from the 2017/18 budget.

### **Risk**

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

## **LEGAL**

The Council has a statutory responsibility to undertake an effective internal audit.

## **OTHER IMPLICATIONS**

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

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

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

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

There is no specific effect on any particular ward.

## **PART 3 – SUPPORTING INFORMATION**

### **BACKGROUND**

The Public Sector Internal Audit Standards require that the Chief Audit Executive to: -

1. Periodically review the Internal Audit Charter and present it for approval.
2. Provide a high level statement of how the Internal Audit Service will be delivered and developed in accordance with the Internal Audit Charter and how it links to the organisational objectives and priorities.
3. Establishes a risk based Internal Audit Plan, at least annually, to determine the priorities of the Internal Audit function, consistent with the Council's goals.
4. Has in place a mechanism to review and adjust the plan, as necessary, in response to changes to the Council's business, risks, operations, programmes, systems and controls.
5. Produces a plan that takes into account the need to produce an annual Internal Audit opinion.
6. Considers the input of senior management and the Audit Committee in producing the plan.
7. Assesses the Internal Audit resource requirements.

## **DEVELOPMENT OF THE AUDIT PLAN**

The plan has been produced taking into account the requirements as set out in the Public Sector Internal Audit Standards, the current Internal Audit Charter and with a vision of using different audit techniques and reporting styles.

The 2018/19 Audit Plan has been developed using a risk based approach, taking account of the Councils Corporate Objectives, Corporate Risks, Departmental Risks and Emerging Risks. A Risk Assessment process has also been undertaken on all auditable areas (Audit Universe) of the Council to enable the Acting Audit and Governance Manager to prioritise audits to be able to provide reasonable assurance to the Audit Committee and provide an opinion on the effectiveness of governance, risk management and internal control processes within the organisation.

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

Recommendations made by the External Quality Assessor have also been considered during the development of the Annual Audit Plan. Further detail of those recommendations can be reviewed within the Internal Audit Plan Periodic Report.

## **INTERNAL AUDIT RESOURCE REQUIREMENTS**

The establishment for the Internal Audit function is currently 3.6 fte, which has been in place since the Audit and Governance Manager retired in October 2017. Rather than replace the Audit and Governance Post on a like for like basis, it is proposed to continue with the existing level of resources supported by an apprenticeship post. The proposed plan has therefore been developed on this basis which reduces the number of audit days from 630 to 570. However it is important to highlight that this should not impact on robustness of the Council's internal audit and assurance processes for the following reasons;

- New audit techniques are to be used across all audits within the audit plan to help modernise the teams approach to audits and reduce the time it takes to complete the audits
- The apprentice post will take on many of the administration activities within the team and therefore maximise the available audit days for all members of the team

The Internal Audit Team is currently in a state of change looking at all current processes and procedures in place. The team is made up of very experienced auditors who are embracing new ways of working and believe that the proposed plan can be delivered and still provide a reasonable level of assurance on the effectiveness of governance arrangements, risk management and internal control processes as required.

The proposed plan provides an opportunity to modernise the Internal Audit Team as well as potentially provide some savings to the Council from the reduced establishment, whilst also providing flexibility in the event that additional resource may be required throughout the year due to unforeseen circumstances.

Based on the above approach proposed it is important to repeat that the Council is not looking to make savings at the expense of reducing the robustness of the Council's

internal audit and assurance processes. The team is looking to adopt alternative audit techniques to become a more proactive and approachable support service, while continuing to deliver independent and objective assurance; which could lead to potential savings in the future. The effectiveness of the new approach proposed will be kept under on-going review and will be reported to the Committee during the year.

## INTERNAL AUDIT PLAN DETAIL

The plan provides an outline of the work currently proposed to be undertaken during the 2018/19 financial year. In order to provide a proactive and flexible approach the plan should be considered indicative of the work currently intended. The Internal Audit Plan needs to be flexible to ensure that Internal Audit resources are directed where they are most needed, and add as much value as possible to the organisation.

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

The Internal Audit Plan is not intended to provide coverage, in any one year, of the entire Audit Universe. If resources become available as a result of plan changes during the year, then priority will be given to audits with the highest ranking that were not included in the plan, that are considered to be due.

The days allocated to individual audits within the plan are only indicative based on historical data and knowledge of the auditable area. When the audits are initiated with the relevant Directors / Heads of Service, the number of days required may change depending on the scope of the review.

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

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

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

- **The comments section** of the plan provides additional detail on the audit techniques to be used to deliver the reviews, a brief summary of what is included within the audit and in some instances why it is included in the plan
- **Key emerging projects** – there are a number of projects in progress or due to start in 2018/19. It is unknown at this stage the level of capacity needed from Internal Audit to support the Council in delivering and/or providing independent advice on the projects. Time has been allocated to support the Council and further detail will be provided to the Audit Committee when the level of involvement becomes clear
- **Development** – Some days have been allocated within the plan to ensure that there is enough time available for the Audit Team to incorporate all of the new processes, procedures, techniques and reporting arrangements into all areas of their work. The 2018/19 financial year will see a new style of reporting from Internal Audit which will include good practice as well as exception reporting, time has been made available to allow both the Internal Audit Team and Service Areas to adapt.

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

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

#### **INTERNAL AUDIT CHARTER**

In previous years an updated Audit Charter has been presented to the March meeting of the Committee for approval.

The Audit Charter includes legislative and regulatory requirements, governance arrangements between the Audit Committee, Management and Internal Audit. Roles and responsibilities and processes and procedures undertaken Internal Audit and the Audit Committee.

As the Internal Audit Team develops the new approach in delivering the internal audit plan, many of the processes and procedures may be subject to change. It is therefore proposed to presents and updated Internal Audit Charter to the Committee later in the year. However, the existing Charter remains in place which sets out the core principles defining the purpose, authority and responsibility of the Internal Audit Function which therefore remain relevant until such time as a revised charter is agreed.

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

Audit Plan Working Papers

#### **APPENDICES**

Appendix A - Internal Audit Plan 2018/19

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Tendring District Council Internal Audit				
2018/19 Internal Audit Plan				
Audit Title	Days Allocated	Total Days	Comments	Associated Inherent Risk Categories
<b>Key Systems / Key Financial Risk Areas</b>				
Procurement	20		Continuous Auditing Approach. Five days allocated per quarter of the annual plan	<ul style="list-style-type: none"> <li>• Financial</li> <li>• Reputation</li> <li>- General Governance and Fraud</li> </ul>
Housing Benefits	15		Different Techniques involved. Techniques used; self-assessment, Root cause analysis / Data Analytics and Assurance Mapping exercises until Universal Credit is adopted.	<ul style="list-style-type: none"> <li>• Financial</li> <li>• Reputation</li> <li>- General Governance and Fraud</li> </ul>
Business Rates	15		Different Techniques involved. To include self-assessment, Root cause analysis / Data Analytics and Assurance Mapping exercises. Analysis of Legislation changes and pooling arrangements may also be required	<ul style="list-style-type: none"> <li>• Financial</li> <li>• Reputation</li> <li>- General Governance and Fraud</li> </ul>
Main Accounting System	10		Data Analytics is the main audit technique used within this audit	<ul style="list-style-type: none"> <li>• Financial</li> </ul>
Corporate Governance	10		Assurance Mapping and Self-Assessments to be used within this audit. Interviews with Senior Management required to ascertain the culture of the organisation	<ul style="list-style-type: none"> <li>• Reputation</li> <li>- General Governance</li> </ul>
Banking	5		Mainly Self-Assessment with some testing required	<ul style="list-style-type: none"> <li>• Financial</li> <li>- General Governance</li> </ul>
Council Tax	15		Different Techniques involved. To include self-assessment, Root cause analysis / Data Analytics and Assurance Mapping exercises.	<ul style="list-style-type: none"> <li>• Financial</li> <li>• Reputation</li> <li>- General Governance and Fraud</li> </ul>

APPENDIX A

Payroll	10		Data Analytics is the main audit technique used within this audit	<ul style="list-style-type: none"> <li>• Financial</li> <li>• Reputation</li> <li>- General Governance and Fraud</li> </ul>
Accounts Payable	10		Data Analytics is the main audit technique used within this audit	<ul style="list-style-type: none"> <li>• Financial</li> </ul>
Treasury Management	8		Assurance Mapping, Self-Assessments and Data Analytics are the main techniques used	<ul style="list-style-type: none"> <li>• Financial</li> <li>• Reputation</li> <li>- General Governance and Fraud</li> </ul>
Housing Rents	12		Root cause analysis / Data Analytics	<ul style="list-style-type: none"> <li>• Financial</li> <li>•</li> </ul>
Cash Receipting	10		Root cause analysis / Data Analytics	<ul style="list-style-type: none"> <li>• Financial</li> </ul>
Accounts Receivable	10		Data Analytics is the main audit technique used within this audit	<ul style="list-style-type: none"> <li>• Financial</li> </ul>
Contract Management	15		Review of different contracts across the council assessing how they are managed and identifying where best practice can be shared	<ul style="list-style-type: none"> <li>• Financial</li> <li>• Reputation</li> <li>- General Governance and Fraud</li> </ul>
Financial Resilience	15		Balancing the Council's budget and forecasting a medium to long plan is still one of the biggest risks the Council faces	<ul style="list-style-type: none"> <li>• Financial</li> <li>• Reputation</li> <li>- General Governance and Fraud</li> </ul>
		<b>180</b>		

Other Systems / Service Area				
Housing Repairs and Maintenance	10		Annual review of individual / multiple elements of HR & M	<ul style="list-style-type: none"> <li>• Financial</li> <li>- General Governance and Fraud</li> </ul>

APPENDIX A

Risk Management	10		Required annually under PSIAS and Cipfa guidance	<ul style="list-style-type: none"> <li>- General Governance</li> </ul>
Corporate Fraud Team	10		Deferred from 2017/18. Full review of proposed governance arrangements introduced.	<ul style="list-style-type: none"> <li>• Reputation</li> <li>- General Governance</li> </ul>
Facilities Management	5		Self-Assessment and Quality Control Review	<ul style="list-style-type: none"> <li>• Financial</li> <li>- General Governance</li> </ul>
Insurance	3		Self-Assessment Questionnaire Exercise	<ul style="list-style-type: none"> <li>• Financial</li> <li>• Reputation</li> </ul>
Inventory / Stock Control	15		Common theme across the Council that continues to raise concerns. Audit expected to identify all areas where stock control is required and provide a consistent approach for all areas	<ul style="list-style-type: none"> <li>• Financial</li> <li>- General Governance and Fraud</li> </ul>
Transformation Programme	15		Review of governance arrangements, decision making, cost / benefit analysis and benefit realisation	<ul style="list-style-type: none"> <li>• Reputation</li> <li>• Financial</li> <li>- General Governance</li> </ul>
Project Management	10		Review of different projects across the council assessing how they are managed and identifying where best practice can be shared and guidance provided for future projects	<ul style="list-style-type: none"> <li>• Financial</li> <li>- General Governance</li> </ul>
Leisure Centres	10		Self – Assessment Exercise to ensure adequate governance and financial control arrangements are in place	<ul style="list-style-type: none"> <li>• Financial</li> <li>- General Governance</li> </ul>
Housing Allocations – Follow Up	7		Follow – Up on issues still outstanding	<ul style="list-style-type: none"> <li>• Reputation</li> <li>- General Governance and Fraud</li> </ul>
Land Charges	5		Self – Assessment and Audit Testing	<ul style="list-style-type: none"> <li>• Financial</li> </ul>

APPENDIX A

Development Management	10		Planning Processes from Application through to Appeals Process	<ul style="list-style-type: none"> <li>• Reputation</li> <li>- General Governance and Fraud</li> </ul>
Health & Safety	10		Spot checks, Compliance reviews and Self - Assessments	<ul style="list-style-type: none"> <li>• Safety</li> <li>• Reputation</li> <li>- General Governance</li> </ul>
Emerging Key Projects	20		Provision for emerging projects. Considered as a contingency provision to be allocated during year to specific tasks as appropriate	<ul style="list-style-type: none"> <li>• Reputation</li> <li>• Financial</li> <li>- General Governance and Fraud</li> </ul>
		<b>140</b>		

<b>Computer Audit</b>				
Digital Transformation Programme	20		IT continues to be one of the biggest risk areas to all organisations. Governance arrangements and project delivery to be within scope	<ul style="list-style-type: none"> <li>• Financial</li> <li>• Reputation</li> <li>- General Governance</li> </ul>
IT Governance	5		PSIAS expectation that this will be covered each year.	- General Governance
IT Assets	10		Includes detailed testing to ensure that all IT Assets are accounted for. Additional security arrangements required from standard stock control	- General Governance and Fraud
Business Continuity & Emergency Planning	15		Review of current arrangements including how financial capacity is built in to emergency planning and business continuity procedures	<ul style="list-style-type: none"> <li>• Safety</li> <li>• Reputation</li> <li>- General Governance</li> </ul>
		<b>50</b>		

<b>Action Tracking / Follow Up</b>	20		Time allocated to chase, monitor and review the implementation of outstanding audit actions	<ul style="list-style-type: none"> <li>N/A</li> </ul>
		<b>20</b>		
<b>Carry Forward of Work in Progress</b>	50		Audits in progress at 31st March 2018. May be necessary to revise figure at late stage in plan process	<ul style="list-style-type: none"> <li>N/A</li> </ul>
		<b>50</b>		
<b>Other</b>				
Consultancy & Advisory	80		Consultancy and advice, requested and unplanned audits, investigations.	<ul style="list-style-type: none"> <li>N/A</li> </ul>
Development	50		Time is needed to introduce different audit techniques to each individual audit and to update and develop reporting arrangements within the team to suit the risk tolerance of the Council (Estimate)	<ul style="list-style-type: none"> <li>N/A</li> </ul>
		<b>130</b>		
<b>Total</b>		<b>570</b>		

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

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## AUDIT COMMITTEE

22 MARCH 2018

### REPORT OF CORPORATE DIRECTOR (CORPORATE SERVICES)

#### A.3 EXTERNAL AUDITOR'S AUDIT PLANNING REPORT FOR THE YEAR ENDED 31 MARCH 2018

(Report prepared by Richard Barrett)

#### PART 1 – KEY INFORMATION

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

To present for consideration and agreement the External Auditor's Audit Planning Report for the year ended 31 March 2018.

##### **EXECUTIVE SUMMARY**

The External Auditor's Audit Plan for the year ending 31 March 2018, which is attached, sets out their planned audit work in respect of informing their opinion on the 2017/18 Financial Statements and the Council's arrangements to secure value for money. The plan is developed taking into account a number of factors such as strategic, operational and financial risk which provides a reporting focus on the areas that matter and more likely to be relevant to the Council.

##### **RECOMMENDATIONS**

**That the Audit Committee considers and agrees the External Auditor's Audit Planning Report for the year ended 31 March 2018.**

#### PART 2 – IMPLICATIONS OF THE DECISION

##### **DELIVERING PRIORITIES**

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

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

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

**Appendix A** of the attached plan sets out a breakdown of fees. The planned fee totals **£71,818** (including certification of claims and returns) which can be met from within existing budgets.

No allowance is made within the overall fee for additional work that may be required such as that associated with additional requirements placed on the Council or unforeseen circumstances, which would be the subject of further reports where necessary.

###### **Risk**

Not supporting and responding practically and timely to External Audit activity may have an

impact on the delivery of the Council's priorities, reputation, governance arrangements and overall control environment.

#### **LEGAL**

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

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

#### **OTHER IMPLICATIONS**

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

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

There are no direct implications.

### **PART 3 – SUPPORTING INFORMATION**

#### **AUDIT PLAN 2017/18**

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

The risks that this introduces have been highlighted within the External Auditor's report attached. In response to the risks and impact of this change, the Council is working closely with the External Auditor to meet the new deadline. A useful summary of a number of activities has been set out within the table on page 14 of the attached report from the External Auditor.

The Audit Plan issued by the External Auditor highlights at a summary level, aspects of the work they plan on undertaking and why, including the value for money conclusion and associated risks.

The outcome of the External Auditor's work will be set out in the Audit Results Report that will be presented to the Audit Committee at their July 2018 meeting followed by the Annual Audit Letter provided to the Council shortly after.

It is also important to draw to the Committees' attention the information set out in **Appendix C** of the attached that highlights the External Auditor's required communication with the Audit Committee, which will be covered via future reports to the Committee as part of the production of the Statement of Accounts and Annual Governance Statement processes.



<b>BACKGROUND PAPERS FOR THE DECISION</b>
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None
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<b>ATTACHMENTS</b>
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The External Auditor's Audit Planning Report for the year ended 31 March 2018
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A high-angle photograph of several people sitting around a white table, reviewing documents. One person's hand is pointing at a document. A smartphone is visible on the table. The scene is brightly lit, suggesting an office or meeting environment.

# Tendring District Council

## Audit planning report

Year ended 31 March 2018

March 2018



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

1 March 2018

Dear Audit Committee Members

#### Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2017/18 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

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

This report is intended solely for the information and use of the Audit Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 25 January 2018 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

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

# Contents

01	Overview of our 2017/18 audit strategy	02	Audit risks	03	Value for Money Risks	04	Audit materiality	05	Scope of our audit
									
	06	Audit team	07	Audit timeline	08	Independence	09	Appendices	

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website ([www.PSAA.co.uk](http://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 February 2017)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Audit Committee, other members of the Authority and Senior management of Tendring District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee, other members of the Authority and Senior management of Tendring District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.





01

# Overview of our 2017/18 audit strategy





# Overview of our 2017/18 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

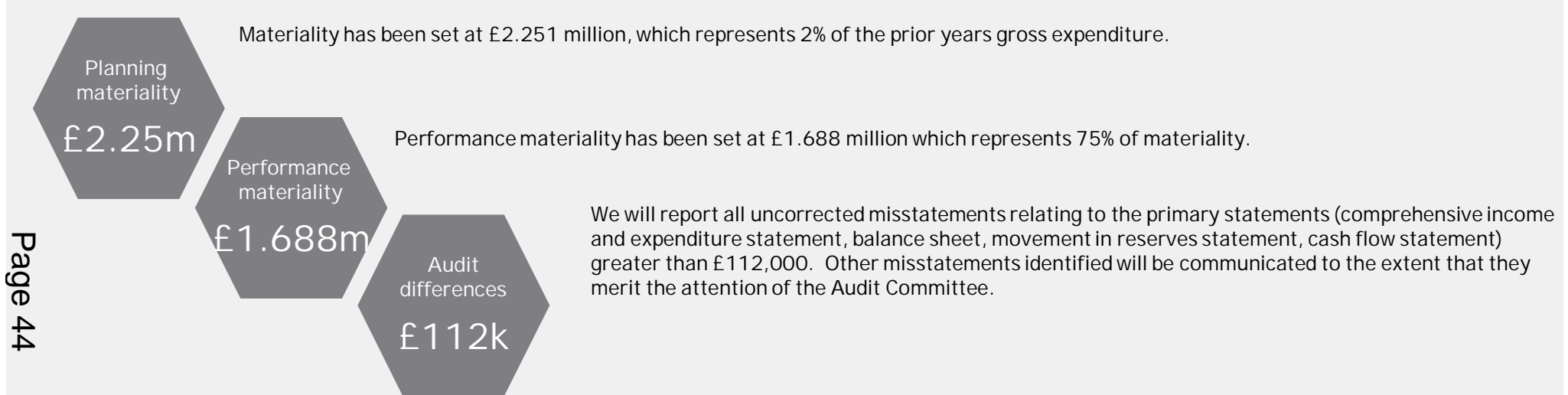
## Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Risk of fraud in revenue and expenditure recognition	Significant Risk/Fraud Risk	No change in risk or focus	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.
Risk of Management Override	Significant risk/Fraud Risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Property, Plant and Equipment valuations	Other Risk	No change in risk or focus	Property, plant and equipment (PPE) represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end PPE balances held in the balance sheet. As the Council's asset base is significant, and the outputs from the valuer are subject to estimation, there is a risk PPE may be under/overstated or the associated accounting entries incorrectly posted. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.
Pension Valuation and Disclosures	Other Risk	No change in risk or focus	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body. The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the Actuary. Accounting for this scheme involves significant estimation and judgement and due to the nature, volume and size of the transactions we consider this to be a risk.

# Overview of our 2017/18 audit strategy



## Materiality





# Overview of our 2017/18 audit strategy

## Audit scope

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

- § Our audit opinion on whether the financial statements of Tendring District Council give a true and fair view of the financial position as at 31 March 2018 and of the income and expenditure for the year then ended; and
- § Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

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

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

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

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

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

There is one change in the scope of our audit planned for 2017/18 at present.

- § The Council intends to restate the 2016/17 Net Cost of Services in the Comprehensive Income and Expenditure Accounts and supporting Expenditure Funding Analysis to reflect the new portfolio structure introduced in 2017/18.

The change in scope will result in extra audit fees as set out in Appendix A.



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# 02 Audit risks



## Our response to significant risks

We have set out the significant risks (including fraud risks denoted by\*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

	What is the risk?	What will we do?
<p data-bbox="120 440 472 496">Risk of fraud in revenue and expenditure recognition</p> <p data-bbox="100 735 472 836">Page 47 Financial statement impact</p> <p data-bbox="107 855 539 1110">Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts. These accounts had the following sums in the 2016/17 financial statements (Net Cost of Services):</p> <p data-bbox="107 1145 439 1174">Income Account: £110.9m</p> <p data-bbox="107 1209 479 1238">Expenditure Account: £90.9m</p>	<p data-bbox="577 459 1167 715">Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p data-bbox="577 750 1160 906">Having assessed the key income and expenditure streams of the Council, we judge that there is material opportunity and incentive for the incorrect classification of revenue spend as capital expenditure.</p>	<p data-bbox="1205 459 1294 488">We will</p> <ul data-bbox="1205 491 2033 587" style="list-style-type: none"> <li>§ Review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.</li> </ul>



## Our response to significant risks

### Risk of Management Override

#### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

#### What will we do?

Our approach will focus on:

- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- Reviewing accounting estimates for evidence of management bias;
- Evaluating the business rationale for significant unusual transactions; and
- Reviewing capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.



## Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

### What is the risk/area of focus?

### What will we do?

#### Property, Plant and Equipment Valuations

##### Other Risk

Property, plant and equipment (PPE) represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.

Material judgemental inputs and estimation techniques are required to calculate the year-end PPE balances held in the balance sheet.

As the Council's asset base is significant, and the outputs from the valuer are subject to estimation, there is a significant risk PPE may be under/overstated or the associated accounting entries incorrectly posted.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.

#### Pension Valuation and Disclosures

##### Other Risk

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body.

The Council's current pension fund deficit is a highly material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary. As with other councils, accounting for this scheme involves significant estimation and judgement and due to the nature, volume and size of the transactions we consider this to be a significant risk.

Our approach will focus on:

- § Considering the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- § Sample testing key asset information used by the valuers in performing their valuation (for example floor plans to support valuations based on price per square metres);
- § Considering the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for Investment Properties. We will also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- § Reviewing assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated;
- § Considering changes to useful economic lives as a result of the most recent valuation; and
- § Testing accounting entries have been correctly processed in the financial statements.

Our approach will focus on:

- § Liaising with the auditors of the Essex Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Tendring District Council;
- § Assessing the conclusions drawn on the work of the actuary, Barnett Waddingham, by the Consulting Actuary, PWC, who are commissioned by the National Audit Office, including the use of our own pensions specialists; and
- § Reviewing and testing the accounting entries and disclosures made in relation to IAS19



03

# Value for Money Risks





## Background

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.

For 2017/18 this is based on the overall evaluation criterion:

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

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

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

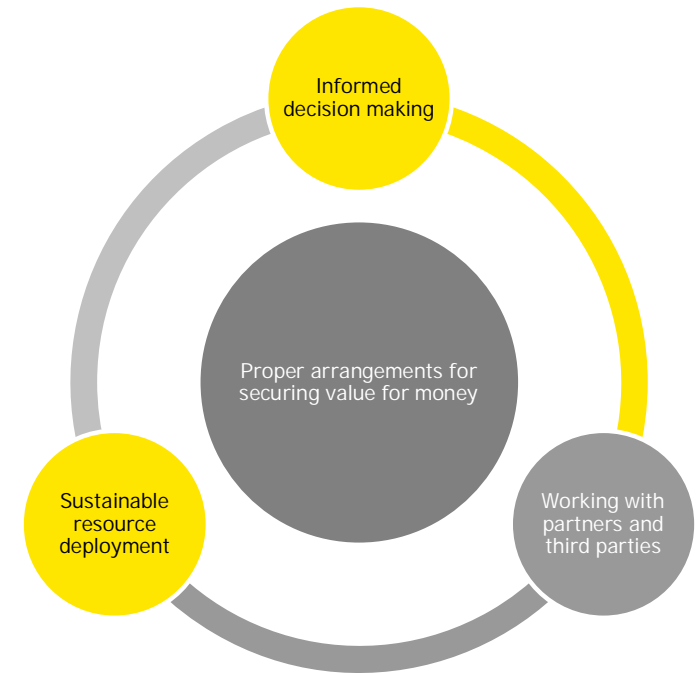
When considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

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

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

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

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





## Value for Money Risks

What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?
<p>Achievement of Savings Needed over the Medium Term</p> <p>The Council faces significant financial challenges over the next three to four years, with a forecast underlying budget gap of £4.6m by 2020-21.</p> <p>Management's September 2017 report sets out a new ten year approach to budgeting, aimed at maximising savings opportunities whilst delivering growth in underlying income to deliver a balanced budget over a ten year forecast.</p> <p>However, the plan also depends upon the use of £3.7 million reserves profiled to 2024/25.</p> <p>Risks exist to the plan should income generation schemes not materialise while using non-recurrent reserves to addressing budget gaps is not sustainable should austerity continue.</p>	<p>Sustainable resource deployment</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>• The robustness of any assumptions used in medium term planning;</li> <li>• The Council's success in prioritising resources whilst maintaining services; and</li> <li>• A review of the Council's revised approach to address its budget gap.</li> </ul>





04

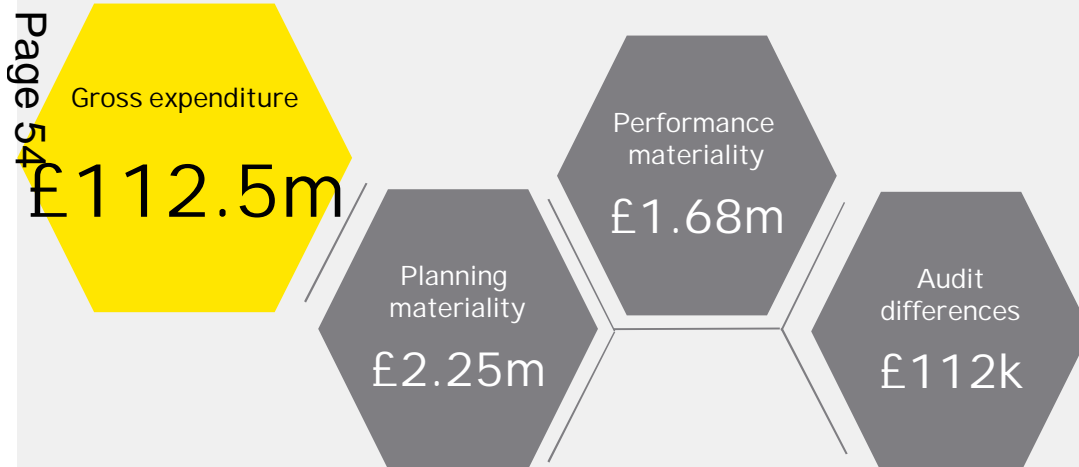
# Audit materiality



## Materiality

### Materiality

For planning purposes, materiality for 2017/18 has been set at £0.684 million. This represents 2% of the Council's prior year gross expenditure. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix D. Gross expenditure is based upon £110.9m plus Interest Payable at Note 11 of £1.6m as the basis for planning materiality



We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

### Key definitions

**Planning materiality** – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

**Performance materiality** – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £1.688,000 which represents 75% of planning materiality. This reflects that we found no material errors in our audit of the 2016/17 financial statements.

**Audit difference threshold** – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the audit committee, or are important from a qualitative perspective.





05

# Scope of our audit



## Our Audit Process and Strategy

### Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

#### 1. Financial statement audit

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

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

#### Procedures required by standards

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

#### Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO [delete if not applicable]

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

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

## Our Audit Process and Strategy (continued)

### Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

Our intention is to carry out a fully substantive audit in 2017/18 as we believe this to be the most efficient audit approach. Although we are therefore not intending to rely on individual system controls in 2017/18, the overarching control arrangements form part of our assessment of your overall control environment and will form part of the evidence for your Annual Governance Statement.

Analytics:

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

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

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

Internal audit:

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





06 Audit team



# Audit team

Audit team structure:

Kevin Suter  
Lead Audit Associate Partner

Chris Hewitt  
Manager

Andrew Rowett  
Senior

## Use of specialists

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

Area	Specialists
Pensions disclosure	EY Pensions Advisory Team

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

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

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.





07 Audit timeline







# Audit timeline

## Timetable of communication and deliverables

### Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2017/18.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning: Risk assessment and setting of scopes. Walkthrough of key systems and processes	December/January	Audit Committee 25 <sup>th</sup> January	Audit Planning Report
Interim audit testing	January/February		
Year end audit	June/July		
Audit Completion procedures	July	Audit Committee (Date not yet confirmed)	Audit Results Report Audit opinions and completion certificates
Conclusion of reporting	August	Audit Committee (Date not yet confirmed)	Annual Audit Letter

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## Timetable of communication and deliverables

### Earlier deadline for production of the financial statements

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 accounts by 31 July.

These changes provide risks for both the preparers and the auditors of the financial statements:

- The Council now have less time to prepare the financial statements and supporting working papers. Risks to the Council include
  - slippage in delivering data for analytics work in the required format and to time required;
  - late working papers;
  - delays in gathering information from external sources such as from the valuer and internal quality assurance arrangements covering for example fixed assets.

As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within same compressed timetable. Slippage at one client could potentially put delivery of others at risk.

To mitigate this risk we will require:

- good quality draft financial statements and supporting working papers by the agreed deadline;
- appropriate Council Finance staff to be available throughout the agreed audit period; and
- complete and prompt responses to audit questions.

If you are unable to meet key dates within our agreed timetable, we will notify you of the impact on the timing of your audit, which may be that we postpone your audit until later in the summer and redeploy the team to other work to meet deadlines elsewhere.

Where additional work is required to complete your audit, due to additional risks being identified, additional work being required as a result of scope changes, or poor audit evidence, we will notify you of the impact on the fee and the timing of the audit. Such circumstances may result in a delay to your audit while we complete other work elsewhere.

We will:

- Work with the Council to engage early to facilitate early substantive testing where appropriate.
- Provide an early review on the Council's streamlining of the Statement of Accounts where non-material disclosure notes are removed.
- Facilitate faster close workshops to provide an interactive forum for Local Authority accountants and auditors to share good practice and ideas to enable us all to achieve a successful faster closure of accounts for the 2017/18 financial year.
- Update our working paper checklist from 2016/17 and provide guidance on the key working papers required to complete our audit;
- Agree the team and timing of each element of our work with you.
- Agree the supporting working papers that we require to complete our audit.



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08

# Independence



## Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

### Required communications

Planning stage	Final stage
<p>▶ The principal threats, if any, to objectivity and independence identified by Ernst &amp; Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;</p> <p>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</p> <p>The overall assessment of threats and safeguards;</p> <p>Information about the general policies and process within EY to maintain objectivity and independence.</p> <p>▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard [note: additional wording should be included in the communication reflecting the client specific situation]</p>	<p>▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</p> <p>▶ Details of non-audit services provided and the fees charged in relation thereto;</p> <p>▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;</p> <p>▶ Written confirmation that all covered persons are independent;</p> <p>▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;</p> <p>▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and</p> <p>▶ An opportunity to discuss auditor independence issues.</p>

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

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

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

## Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

### Overall Assessment

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

### Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

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

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, the current ratio of non-audit fees to audit fees is 0%. No additional safeguards are required.

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

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



## Relationships, services and related threats and safeguards

### Self review threats

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

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

### Management threats

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

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

## Relationships, services and related threats and safeguards

### Other threats

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

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



## Other communications

### EY Transparency Report 2017

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2017 and can be found here:

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2017>



09

Appendices



## Appendix A

### Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code.

	Planned fee 2017/18	Scale fee 2017/18	Final Fee 2016/17
	£	£	£
Total Audit – Code work	58,708*	58,708	66,257**
Certification of Claims and Returns	13,110	13,110	12,380***
Non-audit work	0	0	0
<b>Total fees</b>	<b>71,818</b>	<b>71,818</b>	<b>78,637</b>

*All fees exclude VAT*

\*The planned fees for 2017/18 will be subject to a scale fee variation due to a change in the scope of the audit as summarised below:

\* The Council intends to restate the 2016/17 Net Cost of Services in the Comprehensive Income and Expenditure Accounts and supporting Expenditure Funding Analysis to reflect the new portfolio structure introduced in 2017/18.

\*\*The 2016/17 audit fee includes a scale fee variation increase of £7,549 which is still subject to agreement by PSAA Ltd.

\*\*\* The 2016/17 certification fee includes a scale fee variation decrease of £3,095 which is still subject to agreement by PSAA Ltd.

The agreed fee presented is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment.

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

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

# Regulatory update


In previous reports to the Audit Committee, we highlighted the issue of regulatory developments. The following table summarises progress on implementation:



Earlier deadline for production and audit of the financial statements from 2017/18	
Proposed effective date	Effective for annual periods beginning on or after 1 April 2017.
Details	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.
Impact on Tendring District Council	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>We held a faster close workshop for clients on in November 2017 to facilitate early discussion and sharing of ideas and good practice.</p> <p>We are now working with the Council on ideas coming from the workshop, for example:</p> <ul style="list-style-type: none"> <li>• Discussing the streamlining of the Statement of Accounts to consider removing all non-material disclosure notes;</li> <li>• Bringing forward the commissioning and production of key externally provided information such as IAS 19 pension information, asset valuations;</li> <li>• Re-ordering tasks from year-end to January 2018, reducing year-end pressure;</li> <li>• Discussing working paper requirements in advance of the audit of the financial statements in Summer 2018; and</li> <li>• Seeking to complete the value for money conclusion work by March 2018.</li> </ul>

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# Required communications with the Audit Committee



We have detailed the communications that we must provide to the Audit Committee.

 Our Reporting to you

Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit planning report
Significant findings from the audit	<ul style="list-style-type: none"> <li>• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>• Significant difficulties, if any, encountered during the audit</li> <li>• Significant matters, if any, arising from the audit that were discussed with management</li> <li>• Written representations that we are seeking</li> <li>• Expected modifications to the audit report</li> <li>• Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit results report






## Required communications with the Audit Committee (continued)





		Our Reporting to you
Required communications	 What is reported?	 When and where
Page 74	Going concern	Audit results report
	Financial statements	Audit results report
	Fraud	Audit results report
	Related parties	Audit results report



## Required communications with the Audit Committee (continued)

		Our Reporting to you	
Required communications	 What is reported?	  When and where	
Page 75	Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>• The principal threats</li> <li>• Safeguards adopted and their effectiveness</li> <li>• An overall assessment of threats and safeguards</li> <li>• Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	Audit Planning Report and Audit Results Report
	Internal confirmations	<ul style="list-style-type: none"> <li>• Management's refusal for us to request confirmations</li> <li>• Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	Audit results report
	Consideration of laws and regulations	<ul style="list-style-type: none"> <li>• Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>• Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of</li> </ul>	Audit results report
	Internal controls	<ul style="list-style-type: none"> <li>• Significant deficiencies in internal controls identified during the audit</li> </ul>	Management letter/audit results report
	Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report
	Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report

## Required communications with the Audit Committee (continued)

			 Our Reporting to you
Required communications	 What is reported?	  When and where	
Auditors report	<ul style="list-style-type: none"> <li>• Key audit matters that we will include in our auditor’s report</li> <li>• Any circumstances identified that affect the form and content of our auditor’s report</li> </ul>	Audit results report	
Fee Reporting	<ul style="list-style-type: none"> <li>• Breakdown of fee information when the audit plan is agreed</li> <li>• Breakdown of fee information at the completion of the audit</li> <li>• Any non-audit work</li> </ul>	Audit planning report Audit results report	
Certification work	Summary of certification work undertaken	Certification report	

## Additional audit information

### Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council's to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- Maintaining auditor independence.

## Additional audit information (continued)

### Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the Entity's financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

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

## AUDIT COMMITTEE

22 MARCH 2018

### REPORT OF CORPORATE DIRECTOR (CORPORATE SERVICES)

#### A.4 EXTERNAL AUDIT REPORT – CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT 2016/17

(Report prepared by Richard Barrett)

#### PART 1 – KEY INFORMATION

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

To present the External Auditor's certification of claims and returns annual report 2016/17.

##### **EXECUTIVE SUMMARY**

- Only the Housing Benefit Subsidy claim was subject to audit certification by the Council's External Auditor in 2016/17.
- The External Auditor's detailed report is attached. A qualification letter has been issued in respect of the housing benefit subsidy claim, although there has been only a marginal effect on the subsidy due.
- To date no response has been received from the Department for Works and Pensions in response to the External Auditor's qualification letter which they would have received late last year.
- One recommendation has been made by the External Auditor which has been agreed by Officers.

##### **RECOMMENDATIONS**

**That the Committee:**

- a) **Considers and notes the External Auditor's certification of claims and returns annual report 2016/17; and**
- b) **agrees the recommended action in response to the External Auditor's findings.**

#### PART 2 – IMPLICATIONS OF THE DECISION

##### **DELIVERING PRIORITIES**

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

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

### **Finance and other resources**

The breakdown of External Auditors fees is set out on page 5 of the attached report. Due to initial testing being done by Revenues and Benefits Officers on behalf of the External Auditor, a fee reduction of **£3,095** has been agreed, which reduces the overall proposed fee to **£12,380**, which can be met from within existing budgets.

### **Risk**

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

## **LEGAL**

There are no direct legal implications associated with this report.

## **OTHER IMPLICATIONS**

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

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

There are no direct implications.

## **PART 3 – SUPPORTING INFORMATION**

### **BACKGROUND AND OUTCOMES FROM THE EXTERNAL AUDITOR'S WORK**

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

Findings from the work of the External Auditor are summarised on pages 1 to 4 of the attached report. The more significant change to the amount of subsidy claimed was due to an error that was identified by the Council before the claim was submitted for auditing. There is no impact on the Council's financial position for 2016/17 as the correct amount was included within the outturn position for that year.

As highlighted within the attached report, a qualification letter has been issued by the External Auditor based on the findings set out in their report, which largely reflects the requirement for them to report identified issues to the DWP, rather than due to the significance of the issues themselves as their impact was minimal compared to the overall amount of subsidy claimed..

A recommendation has been agreed that relates to the Council performing early and extended testing in those areas where errors were identified in 2016/17 to ascertain the extent of similar errors in 2017/18. Such testing provides a practical response especially given the volume of cases dealt with each year where it will always be difficult to completely rule out errors during the assessment of claims.



<b>BACKGROUND PAPERS FOR THE DECISION</b>
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None
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<b>ATTACHMENTS</b>
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The External Auditor's Certification of Claims and Returns Annual Report 2016/17
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# Certification of claims and returns annual report 2016-17

Tendring District Council

December 2017

Ernst & Young LLP



Building a better  
working world

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

14 December 2017

Ref: GPS/TDC/grant certification  
Your ref:

Direct line: +44 7876 397986

Email: [ksuter@uk.ey.com](mailto:ksuter@uk.ey.com)

Dear Members

## **Certification of claims and returns annual report 2016-17 Tendring District Council**

We are pleased to report on our certification and other assurance work. This report summarises the results of our work on Tendring District Council's 2016-17 Housing Benefit Subsidy claim.

### **Scope of work**

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

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

For 2016-17, these arrangements required only the certification of the housing benefits subsidy claim. In certifying this we followed a methodology determined by the Department for Work and Pensions (DWP) and did not undertake an audit of the claim.

### **Summary**

Section 1 of this report outlines the results of our 2016/17 certification work and highlights the significant issues.

We checked and certified the housing benefits subsidy claim with a total value of £61.3 million. We met the submission deadline. Although the errors appear small, in accordance with DWP guidance, we report the impact of these within a qualification letter to the DWP and we include the details in section 1. Our work found errors which the Council corrected. The Council identified a significant over claim of housing subsidy of £400,000 through its own processes in compiling the 2016/17 financial statements. The amendments arising from the errors found on housing benefits themselves had a marginal effect on the amount payable to the Council.

Fees for certification and other returns work are summarised in section 2. The housing benefits subsidy claim fees for 2016/17 were published by the Public Sector Audit Appointments Ltd (PSAA) in March 2016 and are now available on the PSAA's website ([www.psa.co.uk](http://www.psa.co.uk)).

The level of testing this year has largely remained the same compared with both 2014/15 and 2015/16. Therefore, as in 2015/16 we have been able to offer the Council an overall reduction in certification fees to recognise that Council staff have undertaken initial testing on our behalf, which did not occur in 2014/15. Details are included in section 1 of the report.

We have made one recommendation this year as set out in section 4.

We welcome the opportunity to discuss the contents of this report with you at the 25 January 2018 Audit Committee.

Yours faithfully

Kevin Suter  
Associate Partner  
Ernst & Young LLP  
United Kingdom  
Enc

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<b>4. Summary of recommendations.....</b>	<b>7</b>

## 1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£ 61,737,996
Amended/Not amended	Amended – subsidy reduced by £400,430 to £61,337,566 including an over claim of subsidy of £400,000 found by the Council's own processes in compiling the 2016/17 financial statements.
Qualification letter	Yes. Although the errors appear small, in accordance with DWP guidance, we report the impact of these within a qualification letter to the DWP.
Fee – 2016-17	£12,380 subject to PSAA Ltd. Agreement.
Fee – 2015-16	£13,110
Recommendations from 2015-16	Findings in 2016-17
Perform early extended testing in those areas where errors were identified in 2015-16, to ascertain the extent of similar errors arising in 2016-17.	<p>The Council implemented the recommendation from last year.</p> <p>In 2015/16, in order to reduce errors on war pensions on Modified Schemes and Rent Allowance War Disablement Pensions, the Council Access limited access for amending these benefits to two members of staff. This year the Council found no errors in these benefit types.</p> <p>We are therefore recommending the Council continue to undertake early testing on Industrial Benefit Disability payments and Rent Allowance State Retirement Pension where errors continue to be likely.</p> <p>Further details of these findings are included in section 4.</p>

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

The certification guidance requires auditors to complete more extensive '40+' or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out as a result of errors that have been identified in the audit of claims in previous years.

In 2016/17, the Council identified errors and carried out extended testing in several areas, for which we re-performed a sample of cases.

Extended and other testing identified errors for which the Council amended. The errors had a small net impact on the claim. We have also reported in our Qualification Letter underpayments and uncertainties as well as the extrapolated value of other errors in a qualification letter.



In respect of our Qualification Letter, the DWP will decide whether to ask the Council to carry our further work to quantify errors or to claw back the benefit subsidy paid.

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

We report the results of the initial and extended ‘40+’ and ‘100%’ testing from errors reported in our previous certification work.

Description of Cell	Nature of error
Cell 094: rent allowance – total expenditure	The Council found no errors in respect of applying the incorrect uplift to the state retirement pension increase in both initial and extended 40+ testing. However, this is an area with consistent errors arising in previous years and therefore we propose to request extra 40+ testing in 2017/18 in this area.
Cell 094: rent allowance – total expenditure	The Council found two errors from testing 58 cases in respect of the incorrect application of industrial disability benefits. One error resulted in no impact for the claim while the second error identified an overpayment of housing benefit awarded. We reported the impact in the Qualification Letter.
Cell 094: rent allowance – total expenditure	The Council did not identify any errors in respect of overpaid benefits due to the incorrect application of war disablement pension.
Cell 225: modified schemes – rent allowance	The Council did not identify any errors in respect of overpaid benefits due to an incorrect start date of war disablement pension.

We are therefore recommending the Council continue to undertake early testing on Industrial Benefit Disability payments and Rent Allowance State Retirement Pension where errors continue to be likely.

**New Errors arising from the certification of the 2016/17 housing benefit subsidy claim**

Description of Cell	Nature of error
Cell 011: Non-HRA rent rebates – total expenditure	Initial testing of 20 Non-HRA Rent Rebate cases identified two errors whereby the Council had: <ul style="list-style-type: none"> <li>· Recorded pension as tax; and</li> <li>· Calculated earned income was correctly but not recorded the earned income into the claim form.</li> </ul> <p>Further testing of 100% of cases identified with earned income no errors from the four cases tested.</p> <p>The Council amended the 2016/17 claim form for the errors found.</p>
Cell 011: Non-HRA rent rebates – total expenditure	Initial testing of 20 Non-HRA Rent Rebate cases identified one error whereby the Council had: <ul style="list-style-type: none"> <li>· Recorded an Employment and Support Allowance (ESA) (Income Related) case as an ESA (Contribution based) case.</li> </ul> <p>There was no impact on subsidy from this case, but as an overpayment could have arisen if there had been other sources of income, the Council undertook further testing.</p> <p>Of the 49 ESA cases identified, The Council found a similar error with no impact for subsidy.</p>

Description of Cell	Nature of error
Cell 094: Rent Allowances	<p>Initial testing of 20 Rent Allowance cases identified two errors whereby the Council had not deducted the pension from earned income.</p> <p>As this would always lead to an underpayment of housing benefit we reported the errors within our Qualification Letter but no further testing was required.</p>

For the 2017/18 claim we are viewing these errors as isolated incidents given that extended testing did not reveal any further errors that would have an impact on subsidy.

**Other**

Audit trails for sub-populations.	<p>We reported that the Council has provided reports to enable extended 40+ and 100% testing of the sub-populations for all cases within rent allowance in receipt of state retirement pension and industrial injury disability benefit.</p> <p>The Council has run the reports to generate these sub-populations on the 1st April 2016. However, if a claimant was in receipt of any of these three types of income prior to this date but was no longer receiving this type of income, on the day the report was run, then the case would not appear in the sub-population.</p> <p>The Authority has advised the only way to obtain a complete report for these sub-populations would be to run the income elements report every day and which is not considered feasible.</p> <p>We have therefore not amended for any errors arising from extended testing on these benefits, but reported the facts to the DWP.</p>
Cell 094 and Cell 103: Difference of £455	<p>To ensure that the correct subsidy is claimed, the Claim form contains a check whereby the Headline Cell for the benefit must equal the in-year subsidy being claimed.</p> <p>For Rent Allowances there is a difference of £455. Northgate, as the supplier of the benefit software, has identified that the net error relates to the recalculation of subsidy on claims dating from 1999. The benefits system has incorrectly calculated an extra benefit payment in the headline cell that does not have a related detail cell.</p> <p>The Council has decided that it is not cost effective to investigate the errors further with the Northgate supplier and are therefore not claiming the amount back.</p> <p>Therefore, the Council has manually adjusted the claim by reducing the Headline Cell 094 by £455, The Council has therefore not claimed this amount back from the DWP.</p> <p>We have reported this matter within our Qualification Letter.</p>

**Other**

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Cell 220: Rental Income for 2016/17 excluding affordable rents:  
£13,691,314

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We also highlighted that, as in previous years, the original claim included a sum of £0 for Rental Income for 2015/16 excluding Affordable Rents.

The council amended the final 2016/17 claim to record a sum of £13,691,314 at Cell 220.

This is because the Council now considers that that the Cell requires disclosure of the Council's social rental income.

The sum does not impact on subsidy claimed by the Council. However, we have drawn the amendment to the attention of the DWP in our Qualification Letter given the sum involved.

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## 2. 2016-17 certification fees

The PSAA determine a scale fee each year for the audit of claims and returns. For 2016-17, these scale fees were published by the Public Sector Audit Appointments Ltd (PSAA's) in March 2016 and are now available on the PSAA's website ([www.psa.co.uk](http://www.psa.co.uk)).

Claim or return	2016-17	2016-17	2015-16
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	£12,380	15,475	13,110

The indicative scale fee for 2016/17 of £15,475 is based on the final fee of £20,633 for 2014/15. The sum of £15,475 reflects the 25% reduction arising from the outcome of the Audit Commission's tendering exercise in March 2014.

Our proposed final fee for 2016/17 is £12,380. This sum represents the scale fee of £15,475 less 20% being £3,095 to reflect the initial testing undertaken by the Council on our behalf with the final fee being £12,380.

We have discussed and agreed the overall fee reduction and final fee with the Head of Finance, Revenues and Benefits.

The final fee is subject to agreement by Public Sector Auditor Appointments Ltd.

### 3. Looking forward

#### **2017/18**

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

The Council's indicative certification fee for 2017/18 is £13,110. This was set by PSAA and is based on final 2015/16 certification fees.

Details of individual indicative fees are available at the following web address:

<https://www.psa.co.uk/audit-fees/201718-work-programme-and-scales-of-fees/individual-indicative-certification-fees/>

We must seek the agreement of PSAA to any proposed variations to these indicative certification fees. We will inform the Head of Finance, Revenues and Benefits before seeking any such variation.

#### **2018/19**

From 2018/19, the Council will be responsible for appointing their own reporting accountant to undertake the certification of the housing benefit subsidy claim in accordance with the Housing Benefit Assurance Process (HBAP) requirements that are being established by the DWP. DWP's HBAP guidance is under consultation and is expected to be published around January 2018.

## 4. Summary of recommendations

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

Recommendation	Priority	Agreed action and comment	Deadline	Responsible officer
<b>Housing benefits subsidy claim</b>  Perform early extended testing in those areas where errors were identified in 2016-17, to ascertain the extent of similar errors arising in 2017-18.	High	Agreed	31 July 2018	Richard Barrett – Head of Finance, Revenues and Benefits

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## AUDIT COMMITTEE

22 MARCH 2018

### REPORT OF CORPORATE DIRECTOR (CORPORATE SERVICES)

#### A.5 AUDIT COMMITTEE WORK PROGRAMME 2018/19 (Report prepared by Richard Barrett)

#### PART 1 – KEY INFORMATION

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

To present for approval the Audit Committee's proposed work programme covering the period April 2018 to March 2019.

##### **EXECUTIVE SUMMARY**

A work programme covering the period April 2018 to March 2019 has been prepared which reflects the significant element of regulatory / statutory activity required along with other associated work which falls within the responsibilities of the Audit Committee.

##### **RECOMMENDATIONS**

**That the Audit Committee considers and approves the Audit Committee Work programme for 2018/19.**

#### PART 2 – IMPLICATIONS OF THE DECISION

##### **DELIVERING PRIORITIES**

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

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

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

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

###### **Risk**

The work programme of the Committee covers a mix of governance arrangements along with statutory and regulatory functions. The work programme aims to address these areas

of responsibility within related timescales and deadlines to support, protect and enhance the Council's reputation and governance framework.

#### **LEGAL**

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

#### **OTHER IMPLICATIONS**

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

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

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

### **PART 3 – SUPPORTING INFORMATION**

#### **PROPOSED WORK PROGRAMME 2018/19**

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

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

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

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

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

From 2017/18, the Statement of Accounts need to be approved two months earlier than in previous years. Therefore to facilitate this change, the meeting usually held in June each year has been moved to July whilst still retaining a meeting in September. The Annual Governance Statement which was previously reported to the Committee in June will now be included as part of the Statement of Accounts that will be presented to the Committee in July following the external audit process. Management Team will be asked to agree a draft Annual Governance Statement to enable it to be published alongside the Pre-Audited Statement of Accounts by the end of May each year, with both being subject to external audit and final approval by the Committee at its July meeting.

Taking into account the responsibilities of the Audit Committee as highlighted above the proposed work programme covering the period from April 2018 up to and including March 2019 is set out in **Appendix A**.

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

<b>BACKGROUND PAPERS FOR THE DECISION</b>
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None
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<b>APPENDICES</b>
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<b>APPENDIX A</b> – Audit Committee Work Programme 2018/19
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**APPENDIX A**

**Audit Committee Work Programme 2018/19**

<b>Audit Committee Meeting</b>	<b>Item</b>	<b>From</b>
<b>July 2018</b>	Annual Report of the Audit and Governance Manager 17/18	Internal Audit
	Internal Audit Regular Monitoring Report  (Including annual review of Internal Audit Charter)	Internal Audit
	Audit Results Report 2017/18  (Including Statement of Accounts 2017/18, Annual Governance Statement 2017/18 and outcomes from the annual review of the Council's Code of Corporate Governance)	External Audit / Corporate Director (Corporate Services)
	Corporate Risk Update	Corporate Director (Corporate Services)
	Update on Counter Fraud and Corruption Framework  (to include a Counter Fraud and Corruption Strategy)	Corporate Director (Corporate Services)
	Table of Outstanding Issues (including update against External Audit Recommendations)	Corporate Director (Corporate Services)
	<b>September 2018</b>	Internal Audit Regular Monitoring Report
Annual Review of the Risk Based Verification Policy		Corporate Director (Corporate Services)
Table of Outstanding Issues (including update against External Audit Recommendations and obtaining the views of External Audit on the effectiveness of the Committee)		Corporate Director (Corporate Services)

<b>January 2019</b>	Internal Audit Regular Monitoring Report	Internal Audit
	Annual Audit Letter 2017/18	External Audit
	Corporate Risk Update	Corporate Director (Corporate Services)
	Table of Outstanding Issues (including update against External Audit Recommendations)	Corporate Director (Corporate Services)
<b>March 2019</b>	Internal Audit Regular Monitoring Report	Internal Audit
	Internal Audit Plan 2019/20 (Including annual review of Internal Audit Charter)	Internal Audit
	External Audit - Audit Plan for Year Ending March 2019	External Audit
	Certification of Claims and Returns Annual Report 2017/18	External Audit / Corporate Director (Corporate Services)
	Audit Committee's Work Programme 2019/20	Corporate Director (Corporate Services)
	Table of Outstanding Issues (including update against External Audit Recommendations)	Corporate Director (Corporate Services)

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## AUDIT COMMITTEE

22 MARCH 2018

### REPORT OF CORPORATE DIRECTOR (CORPORATE SERVICES)

#### A.6 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 25 January 2018 meeting.
- To date there are no significant issues to bring to the attention of the Committee, with updates provided on individual items set out in **Appendix A** or elsewhere on the agenda where appropriate.
- Updates on actions identified within the latest Annual Governance Statement are set out in **Appendix B** with no significant issues to highlight at the present time.
- In developing a Counter Fraud and Corruption Strategy, a voluntary code of practise published by CIPFA has been identified which is presented to the Committee to consider for adoption by this Council.

##### RECOMMENDATION(S)

That the Committee:

- a) Notes the progress on the outstanding issues; and
- b) adopts CIPFA's code of practice on managing the risk of fraud and corruption.

#### 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.

The Health and Safety Executive's final report and recommendations following the legionella issue experienced at the Frinton and Walton Lifestyles facility 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 previously reported to the Committee, Internal Audit plan to undertake an independent audit of health and safety which 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. This audit is now in progress and is planned to report the outcome from the associated work to the July 2018 meeting of the Committee.

In the work undertaken to develop a counter fraud strategy, a wider review of best practice guidance has now been completed. One of the leading voices in this area has been CIPFA through their Counter Fraud Centre. They have made available best practice guidance on managing the risk of fraud and corruption. Although they have identified the need for

organisations to have in place a counter fraud and corruption strategy, they have highlighted that this should sit within a wider context / framework within an organisation. The code of practise therefore identifies the following key principles for an organisation to consider:

### **Principle 1 - Acknowledge responsibility**

The organisation should acknowledge its responsibility for ensuring that the risks associated with fraud and corruption are managed effectively across all parts of the organisation.

Specific steps should include:

- The organisation's leadership team acknowledge the threats of fraud and corruption and the harm they can cause to the organisation, its aims and objectives and to its service users.
- The organisation's leadership team acknowledge the importance of a culture that is resilient to the threats of fraud and corruption and aligns to the principles of good governance.
- The governing body acknowledges its responsibility for ensuring the management of its fraud and corruption risks and will be accountable for the actions it takes through its governance reports.
- The governing body sets a specific goal of ensuring and maintaining its resilience to fraud and corruption and explores opportunities for financial savings from enhanced fraud detection and prevention.

### **Principle 2 - Identify risks**

Fraud risk identification is essential to understand specific exposures to risk, changing patterns in fraud and corruption threats and the potential consequences to the organisation and its service users.

Specific steps should include:

- Fraud risks are routinely considered as part of the organisation's risk management arrangements.
- The organisation identifies the risks of corruption and the importance of behaving with integrity in its governance framework.
- The organisation uses published estimates of fraud loss, and where appropriate its own measurement exercises, to aid its evaluation of fraud risk exposures.
- The organisation evaluates the harm to its aims and objectives and service users that different fraud risks can cause.

### **Principle 3 - Develop a strategy**

An organisation needs a counter fraud strategy setting out its approach to managing its risks and defining responsibilities for action.

Specific steps should include:

- The governing body formally adopts a counter fraud and corruption strategy to address the identified risks and align with the organisation's acknowledged responsibilities and goals.

- The strategy includes the organisation's use of joint working or partnership approaches to managing its risks, where appropriate.
- The strategy includes both proactive and responsive approaches that are best suited to the organisation's fraud and corruption risks.
- The strategy includes clear identification of responsibility and accountability for delivery of the strategy and for providing oversight.

#### **Principle 4 - Provide resources**

The organisation should make arrangements for appropriate resources to support the counter fraud strategy.

Specific steps should include:

- An annual assessment of whether the level of resource invested to counter fraud and corruption is proportionate for the level of risk.
- The organisation utilises an appropriate mix of experienced and skilled staff, including access to counter fraud staff with professional accreditation.
- The organisation grants counter fraud staff unhindered access to its employees, information and other resources as required for investigation purposes.
- The organisation has protocols in place to facilitate joint working and data and intelligence sharing to support counter fraud activity.

#### **Principle 5 - Take action**

The organisation should put in place the policies and procedures to support the counter fraud and corruption strategy and take action to prevent, detect and investigate fraud.

Specific steps should include:

- The organisation has put in place a policy framework which supports the implementation of the counter fraud strategy.
- Plans and operations are aligned to the strategy and contribute to the achievement of the organisation's overall goal of maintaining resilience to fraud and corruption.
- Making effective use of national or sectoral initiatives to detect fraud or prevent fraud, such as data matching or intelligence sharing.
- Providing for independent assurance over fraud risk management, strategy and activities.
- There is a report to the governing body at least annually on performance against the counter fraud strategy and the effectiveness of the strategy from the lead person(s) designated in the strategy. Conclusions are featured in the annual governance report.

Although the code of practice is voluntary, as it provides a robust framework against which to consider the Council's own counter fraud and corruption arrangements, the Committee is asked to consider it for adoption. Subject to the Committee's decision, the necessary activities will be developed including the finalisation of a counter fraud and corruption strategy within this wider framework.

As highlighted in the report to the Committee in January 2018, it is still the intention to

work in partnership with the Department for Works and Pensions on joint investigations where appropriate. This will therefore be considered alongside the development of the wider counter fraud and corruption framework highlighted above.

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

CIPFA's Code of Practice on Managing the Risk of Fraud and Corruption

#### **APPENDICES**

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

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

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**AUDIT COMMITTEE - Table of Outstanding Issues (March 2018)**

<b>GENERAL</b>					
<b>Governance Area</b>	<b>Activity / Subject</b>	<b>Recommendation / Issue</b>	<b>Lead Service</b>	<b>Progress / Comments</b>	<b>Status - Target Date</b>
<b>Risk Management</b>	<b>Effective Management of the Council's Property Portfolio</b>	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	As reported to the last meeting of the Committee, 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. Although a formal response is awaited, initial comments from the risk engineer are that he was pleased with the inspections overall although there are some risk improvements that will be recommended. Once received the necessary actions will be considered.	<b>First Quarter 2018/19</b>



<p><b>The Council's Governance arrangements</b></p> <p style="text-align: center;">Page 108</p>	<p><b>Procurement / Contract Arrangements</b></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"> <li>* Actions to protect the Council from fraud</li> <li>* Expectation of officers if covering another officer's duties where procurement is undertaken</li> <li>* The nature and level of assistance that can be provided to people / organisations bidding for Council work</li> <li>* Disaggregation of works to avoid procurement procedure rules is not permitted</li> <li>* Checks to undertake ensure potential contractors have the capacity and financial stability to deliver the Council's requirements</li> <li>* What activities need to be completed before payment is released to contractors / suppliers</li> <li>* The correct coding of expenditure within the financial systems</li> <li>* Contractors not to be paid in advance unless contractually obliged to do so</li> <li>* 'Spot' checks required by Senior Managers to ensure rules / guidance is being adhered to</li> </ul>	<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 now been completed.</p> <p>A final training session for those officers who were unable to make the previous dates is currently being arranged.</p> <p>Any officer who fails to attend any of the sessions offered will be removed from the Council's electronic ordering system.</p>	<p><b>April 2018</b></p>
<p><b>The Council's Governance arrangements</b></p>	<p><b>Effective Monitoring of S106 Agreements</b></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"> <li>(a) the progress in relation to the Section 106 audit be noted;</li> <li>(b) a follow-up audit be undertaken in March 2018; and</li> <li>(c) the Section 106 Audit be added to the Table of Outstanding Issues</li> </ul>	<p>Head of Planning Services / Audit and Governance Manager</p>	<p>A follow up audit included within the Internal Audit Plan is now in progress.</p> <p>As previously reported, an officer has been recruited on a 2 year fixed term basis to support the administration of S106 agreements.</p> <p>The new Exacom IT system that supports the administration of S106 agreements is scheduled to go live by the end of March 2018.</p>	<p><b>July 2018</b></p>
<p><b>Risk Management</b></p>	<p><b>Cyber Security Training</b></p>	<p>At its 25 January 2018 meeting, the Committee considered the Corporate Risk Register, following which it resolved that:</p> <p><i>The Head of Finance, Revenues &amp; Benefits Services requests the Head of IT and Corporate Resilience to consider providing training to Members on aspects of cyber security.</i></p>	<p>Head of Finance and Revenues and Benefits and Head of IT and Corporate Resilience</p>	<p>The relevant training is scheduled for inclusion within an all member briefing session on 18 April 2018.</p>	<p><b>April 2018</b></p>

## AUDIT COMMITTEE - Table of Outstanding Issues (March 2018)

### ANNUAL GOVERNANCE STATEMENT ACTIONS

ANNUAL GOVERNANCE STATEMENT ACTIONS		
Governance Issue	Action	Current Position / Update
Page 109	<p><b>Sustainable Resource Deployment: Achievement of Savings Needed over the Medium Term</b></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>The budget for 2018/19 was agreed by Council on 6 February 2018 which was in-line with the forecast.</p> <p>Work remains on-going to develop 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 during the year.</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 was agreed by Cabinet in February 2018, with the final steps of the associated procurement process in progress to enable relevant activities to commence as soon as possible going into 2018/19.</p>
<p><b>Informed Decision Making: Garden Communities</b></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>It is recognised that associated governance frameworks may be subject to change as the potential option of establishing a Development Corporation to deliver this project continues to be explored.</p>

<p><b>Working with Partners and Other Third Parties: Jaywick Sands</b></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 in 2018/19.</p>
<p><b>Other Major Issues</b></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 going into 2018/19.</p>

By virtue of paragraph(s) 7 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

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