

Public Document Pack
SOUTHEND-ON-SEA BOROUGH COUNCIL

Audit Committee

Date: Wednesday, 18th January, 2017

Time: 6.30 pm

Place: Committee Room 1 - Civic Suite

Contact: Colin Gamble

Email: committeesection@southend.gov.uk

AGENDA

- 1 Apologies for Absence**
- 2 Declarations of Interest**
- 3 Minutes of the Meeting held on 21st September 2016** (Pages 1 - 4)
- 4 Corporate Risk Register 2016/17** (Pages 5 - 30)
Report of Chief Executive
- 5 Treasury Management Policy** (Pages 31 - 62)
Report of Chief Executive
- 6 BDO: Progress Report to Those Charged with Governance** (Pages 63 - 78)
Report of Chief Executive
- 7 BDO: Annual Audit Letter 2015/16** (Pages 79 - 94)
Report of Chief Executive
- 8 Internal Audit Service Quarterly Performance Report** (Pages 95 - 156)
Report of Chief Executive
- 9 Counter Fraud & Investigation Services Quarterly Performance Report** (Pages 157 - 166)
Report of Chief Executive

Information Items

Briefing from the CIPFA Better Governance Forum - November 2016.
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| <ul style="list-style-type: none">• CIPFA Survey on Local Authority and Police Audit Committees<ul style="list-style-type: none">• Background to the Survey• The Structure and Composition of Local Authority Audit Committees• Training and Support• Effectiveness• Internal Audit and the Audit Committee |
|---|

- CIPFA Better Governance Forum, Audit Committee Update, Helping Audit Committees to be Effective, Issue 21:
 - The audit committee and internal audit quality
 - Briefing on topical issues
 - Audit committee training.
- Public Sector Audit Appointments, Annual Regulatory Compliance and Quality report for BDO, Audit Year 2015/16

Members:

Cllr B Ayling, Cllr S Buckley (Vice-Chair), Cllr M Davidson (Chair), Cllr C Nevin, Cllr A Bright, Cllr D Garston, Cllr M Stafford, Cllr J Moyies and Cllr J Ware-Lane

SOUTHEND-ON-SEA BOROUGH COUNCIL

Meeting of Audit Committee

Date: Wednesday, 21st September, 2016

Place: Committee Room 1 - Civic Suite

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Present: Councillor M Davidson (Chair)
Councillors B Ayling, S Buckley (Vice-Chair), C Nevin, A Bright,
D Garston, M Stafford, J Moyies and J Ware-Lane.

In Attendance: J Chesterton, C Gamble, L Everard, D Bonner, D Helps, A Langridge
BDO, L Clampin BDO, I Ambrose, C Fozzard, T MacGregor, J
Denham and D Kleinberg

Start/End Time: 6.30 - 7.50 pm

286 Apologies for Absence

There were no apologies for absence.

287 Declarations of Interest

The following interest was declared at the meeting:

Councillor Davidson – Matters in relation to South Essex Homes – Member of
South Essex Homes Board – Non-pecuniary interest.

288 Minutes of the Meeting held on 29th June 2016

Resolved:-

That the minutes of the meeting held on 29th June 2016 be confirmed and signed
as a correct record, subject to the inclusion of the additional paragraph in the
preamble to minute 78 (Head of Internal Audit Annual Report 2015/16) as reported
at Council on 21st July 2016.

289 Local Code of Governance Review

The Committee considered a report of the Chief Executive presenting the Council's
Local Code of Governance.

Resolved:-

1. That the Local Code of Governance be recommended for approval by Cabinet.
2. That once approved, the Council's Constitution be updated with the revised Local
Code of Governance.

290 BDO Report to the Audit Committee 2015-16

The Committee considered a report summarising the results of the work completed to date for the 2015/16 financial year with regard to:

- the opinion on the Statement of Accounts
- the conclusion on the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources (the VFM conclusion).

The Committee asked a number of questions which were responded to by the BDO External Auditor.

On consideration of the report, the External Auditor informed Members that one objection had been received to the accounts which would need to be resolved before the Audit Certificate could be issued.

The External Auditor concluded by referring to the high quality of the accounts and to the audit which ran smoothly and efficiently. She thanked the Council officers involved for their help and cooperation during the audit process.

Resolved:

That the BDO report to the Audit Committee 2015/16 be accepted.

291 Statutory Statement of Accounts 2015-16

The Committee considered a report of the Corporate Director for Corporate Services on the Statement of Accounts for 2015/16.

The Head of Finance and Resources informed Members that pages 132 and 133 of the accounts (Group Balance Sheet and Group Cash Flow Statement) had been revised and he circulated a copy of the replacement pages at the meeting.

The Committee asked a number of questions which were responded to by officers.

Resolved:-

That the Statement of Accounts 2015/16 be adopted and approved for publication.

292 BDO Progress Report to Those Charged with Governance

The Committee considered a report outlining the progress made in delivering the 2015/16 Annual Audit Plan

Resolved:-

That the progress made in delivering the Annual Audit Plan for 2015/16, be accepted.

293 Internal Audit Quarterly Performance Report

The Committee considered a report of the Corporate Director for Corporate Services on the progress made in delivering the Internal Audit Strategy for 2016/17.

The Committee asked a number of questions which were responded to by officers.

Resolved:-

That the progress made in the delivering the Internal 2016/17 Audit Strategy be noted.

294 Counter Fraud and Investigation Directorate - Status Report

The Committee considered a report of the Corporate Director for Corporate Services on the progress made in delivering the Corporate Counter Fraud & Investigation Strategy for 2016/17.

The Committee asked a number of questions which were responded to by officers.

Resolved:-

That the Counter Fraud & Investigation Directorate's performance to date be noted.

295 Audit Committee Terms of Reference

The Committee considered a report of the Corporate Director for Corporate Services presenting a revised Terms of Reference for the Audit Committee to reflect the current good practice guidelines set out in the publication, CIPFA, Audit Committees Practical Guidance for Local Authorities and Police 2013 Edition.

Recommended:-

That subject to the inclusion of minor amendments to reflect revised officer job titles, the revised Terms of Reference as set out as an appendix to the submitted report, be adopted.

296 Treasury Management Training

It was noted that Treasury Management training had been arranged for all Members and would take place on Tuesday, 8th November 2016 at 17:30.

297 Officer Departure - Sally Holland

The Chairman referred to the impending departure of Sally Holland (Corporate Director for Corporate Services) and thanked her for her excellent contribution to the work of the Audit Committee.

298 Information items

The Committee noted the following documents:-

- Audit Committee Update, Helping Audit Committees to be Effective, Issue 20: CIPFA Survey on Audit Committees
- CIPFA Better Governance Forum;
 - Delivering Good governance Framework
 - Delivering Good Governance Briefing Note
 - Delivering Good Governance Guidance Notes
- Code of Practice – Managing the Risk of Fraud and Corruption
- Fighting Fraud and Corruption Locally the Strategy – 2016
- PKF Fraud Indicator Report

Chairman: _____

Southend-on-Sea Borough Council

Report of Chief Executive and Town Clerk
To

Audit Committee

On

18 January 2017

Agenda
Item No.

4

Report prepared by: Louisa Bowen -
Senior Business Management Advisor/Tim MacGregor -
Team Manager - Policy and Information Management

2016-17 Corporate Risk Register

Executive Councillor – Councillor Lamb

A Part 1 Public Agenda Item

1 Purpose of Report

- 1.1 To provide an update for quarter three (December 2016), on the Corporate Risk Register (CRR) for 2016/17.

2 Recommendation

- 2.1 **That the updated Corporate Risk Register for 2016/17 is noted.**
- 2.2 **That Audit Committee note the inclusion of a new risk (Risk 12), relating to the implementation of the Children's Service Improvement Plan (replacing the risk relating to the Ofsted inspection rating for Children's Services).**

3 Background

3.1 Corporate Risk Register 2016/17

- 3.1.1 The Council's Corporate Risk Register sets out the key risks to the successful delivery of the Council's corporate aims and priorities and outlines the key controls and actions to mitigate and reduce risks, or maximise opportunities. The register is a key element of the Council's risk management strategy.
- 3.1.2 The register was refreshed in April to reflect the challenges for 2017/18 and was presented to Audit Committee on 29 June. The register is reported to Corporate Management Team (CMT) quarterly and Audit Committee every six months. .
- 3.1.3 The Corporate Risk Register follows a 3 stage process:

1st stage: An 'inherent score' with the risk assessed with no controls, assurance or actions in place.

2nd stage: The 'current score' where the risk is assessed with controls, assurances and progress against identified actions. The current score is adjusted in light of progress against actions.

3rd stage: The target score which is the risk with the controls, assurances and actions, as if they have been completed

The current score is then adjusted in light of progress against actions. It should be noted that the scoring of a risk is a subjective process following discussion with those closely involved in the issue and assessment by Corporate Management Team.

- 3.1.4 The Corporate Risk Register is attached at Appendix 1, and has been updated following consideration by CMT members.
- 3.1.5 The Deputy Chief Executives and departments are responsible for ensuring service specific risks are managed within their directorates, within service plans and in accordance with the Risk Management Strategy and processes. 'Red' rated service risks with corporate implications can be escalated to CMT. Actions for these risks are updated and managed by risk leads and reviewed at departmental management team meetings.
- 3.1.6 Operational risks, managed within Directorates, are also assessed as part of reviews undertaken by Internal Audit and project risks are monitored by the Corporate Delivery Board where applicable.

4 CRR, Risk 12 – Children's Services Improvement Plan

The corporate risk relating to the preparation undertaken in anticipation of the Ofsted inspection of Children's Services is no longer relevant and has been replaced by a new risk relating to the implementation of the follow up Improvement Plan.

5 Internal Audit Review of risk management

- 5.1 An Internal Audit review of risk management arrangements earlier in the year found that overall, the arrangements for identifying, recording and monitoring corporate/strategic risks were good and in compliance with the Council's Risk Management Strategy and Toolkit. The level of understanding about how to apply this was also sound. However, the review also found that the appropriate process was not being applied as well or consistently at service level. As a result an associated programme of work has been identified and is being implemented to address the issues identified. The findings of the review are outlined in another report elsewhere on the agenda for this meeting.

6 Corporate Implications

- 6.1 Contribution to Council's Vision & Corporate Priorities
The Corporate Risk Framework underpins the operational effectiveness of the Council's Corporate Governance arrangements and specifically monitors progress of managing key risks associated with the successful delivery of Corporate Aims and Priorities.

- 6.2 Financial Implications
Any financial implications arising from identifying and managing risk will be considered through the normal financial management processes. Proactively managing risk can result in reduced costs to the Council by reducing exposure to potential loss.
- 6.3 Legal Implications
The Accounts and Audit Regulations 2003 require that:

The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's function and which includes the arrangements for the management of risk.
- 6.4 People Implications
Any people and property implications arising from identifying and managing risk will be considered through the Council's normal business management processes.
- 6.5 Property Implications
None specific
- 6.6 Consultation
Consultation has taken place with key stakeholders.
- 6.7 Equalities Implications
Corporate Equalities considerations have been considered in the drafting of the Register and any specific equality related risks have been identified for the Council.
- 6.8 Risk Assessment
Failure to implement a robust assurance framework which includes fit for purpose risk management arrangements increases the risk that Council objectives will not be delivered.
- 6.9 Value for Money
Effective forecasting and timely management of risk is a key factor in preventing waste, inefficiency and unnecessary or unplanned use of resource.
- 6.10 Community Safety Implications
None specific
- 6.11 Environmental Impact
None specific.

7 Appendices

Appendix 1 –Corporate Assurance Risk Register 2016/17 – Quarter 3 update

Corporate Assurance Risk Register

December 2016

Contents

Section 1	3 Stage Risk Scoring Process Brief description of the 3 stage risk scoring process and clarification of each stage
Section 2	Risk Matrix The matrix used for calculating Risk score.
Section 3	Corporate Assurance Risk Register <ul style="list-style-type: none"> - Inherent, Current and Target scores - Controls and Assurances - Future Actions and comments.

Southend-on-Sea Borough Council's Corporate Assurance and Risk Register is a best practice template for recording and managing risks. The Council also promotes the use of Assurance and Risk Registers for managing risks within service areas which are recorded and managed in service and project plans.

The Risk Register is a management tool where a review and updating process identifies, assesses and manages down the risk to acceptable levels. It provides a framework in which problems that may arise and adversely affect the delivery of the Council's aims and priorities are captured and actions instigated to reduce the likelihood and impact of that particular risk.

Section 1 - Three Stage Risk Scoring Process

Southend-on-Sea Borough Council operates a 3 Stage Risk Scoring process as outlined in the Council's Risk Management Toolkit which is available on the Council intranet site. The information below offers a brief overview of each stage of the Risk process.

Inherent score – the risk scored with no controls, assurances or actions in place.

Current score – the risk scored with controls, assurances and progressed actions.

Target score – the risk score with controls and assurances in place and linked actions completed.

As controls and assurances are put in place and actions completed the Risk will be more controlled and, therefore, the current score moves towards the Target Score. The current score from the last reported Corporate Risk Register is shown in brackets.

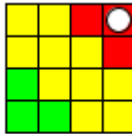
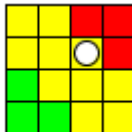
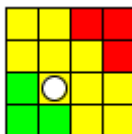
Section 2 - Risk Matrix



E X A M P L E S				IMPACT	CORPORATE RISK GRID			
Reputational:	Compliance	Financial:	Service Provision / Continuity:					
National publication (name and shame) by external body leading to a loss of control over the running of Council operations. Front page of national paper.	The council faces serious penalties or prosecution & criticism from institutions such as, Ombudsman, Information commissioner. Customers are treated unfairly & suffer damage by the council.	Over £1m loss More than 20% of total budget individually or cumulatively	Service delivery affected by over 3 months. Statutory / critical service delivery will cease for a period of time without any effective contingency.	Catastrophic	4	8	12	16
National or local front-page press article leading to a reduced ability to affectively deliver one or more services. National press article.	The council may face criticism and be ordered to comply with legislation by an external body as a result of a breach.	Between £500k - £1m, 10-20% of total budget individually or cumulatively	Delivery affected between 1 & 3 Months. Loss of a non-critical service for a significant period of time.	Severe	3	6	9	12
Disgruntled local groups/ individuals possibly leading to internal complaints with research into the causes. Local press article &/or ombudsman enquiry.	The council may commit largely undetectable breaches in legislation and internal procedures that could have other minor effects on reputation, service delivery etc.	Between £50k - £499k, 5 – 10% of total budget individually or cumulatively	Delivery affected by up to 1 month. Minor disruption or inconvenience to service delivery & customers. (Reduced staffing, late opening, temp loss of IT).	Material	2	4	6	8
Rumour and gossip	All other material risks.	Under £50k, less than 5% of total budget individually or cumulatively	Minor disruption	Negligible	1	2	3	4
					Unlikely <10%	Likely 10-40%	Very Likely 40-75%	Almost Certain >75%
					LIKELIHOOD			

2016-17 Corporate Risk Register

Generated on: 09 January 2017



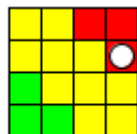
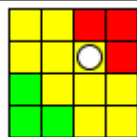
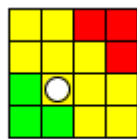
Risk Title	1. Budget for 2017-20							
Stage 1 - Risk without controls (Inherent risk)								
Code	Risk - CAUSE, EVENT, EFFECT	Risk Owner	Risk type	Risk category	Inherent risk score	16	<div><div>Impact</div><div>Likelihood</div></div>	
1617CRR01	Risk that the scale of predicted funding reductions for 2017-20 budgets will result in significant adverse impact on council services>	Rob Tinlin	Strategic	Financial/Reputational				
Stage 2 - Risk with Controls and Assurances (current risk)								
List of controls and associated assurances to ensure controls are working					Current risk score	9	<div><div>Impact</div><div>Likelihood</div></div>	
<p>1. Control: Budget setting process to identify required savings through: budget proposal reports to Departmental and Corporate Management Teams; member seminars; Cabinet; Scrutiny Committees; Council Assurance: reports to and minutes of meetings.</p> <p>2. Control: Management oversight of budget setting process through: reports to CMT and Administration Assurance: Reports/Minutes</p> <p>3. Control: Senior member and Chief Executive challenge to departments on proposed savings Assurance: Reports and minutes of meetings.</p> <p>4. Control: Director challenge to Heads of Service Assurance: Minutes of Departmental Management Team meetings/emails.</p> <p>5. Control: Medium Term Financial Strategy (MTFS), including budget pressures to regularly consider financial impact of Government policy reported to CMT, Cabinet and Council Assurance: Reports and minutes of meetings.</p>								
Stage 3 - Further actions to reduce the risk (target risk)								
Code	Actions to further mitigate risk / maximise opportunities	Action Owner	Due date	Comments / update on progress	RAG Status	Target risk score	4	<div><div>Impact</div><div>Likelihood</div></div>
1617CRA0101	Continually monitor and assess government's position on grant to be distributed to Local Authorities and other Government announcements that impact funding	Joe Chesterton	31-Mar-2017	Dec 16 - Director of Finance and Resources horizon scanning for all relevant government announcements. Autumn statement announced on 23 November and is currently being analysed for impact on the Medium-term Financial Plan, now waiting on the provisional Local Government Settlement which is due to be announced in mid-December.	🟢			
1617CRA0102	Budget Timeline outlining key milestones to be agreed with the Administration and Senior Leadership Team.	Joe Chesterton	30-Sep-2016	Dec 16 -Timeline in place with key deadlines.	🟢			


1617CRA0103	All Member briefing session on local government finance	Joe Chesterton	30-Nov-2016	Dec 16 -Briefing session planning is currently under review, to see whether this is required.				
1617CRA0104	Continual monitoring, risk assessment and reporting of progress on options to meet the saving targets required to set balanced budgets in 2017/18 to 2019/20	Joe Chesterton	31-Mar-2017	Dec 16 -Relevant meetings have taken place since the Summer, where savings, pressures, capital, fees and charges and HRA proposals have been considered. Budget reports now being drafted for Budget Day 11 January 2017.				

Risk Title	2. Recruiting and retaining staff								
Stage 1 - Risk without controls (Inherent risk)									
Code	Risk - CAUSE, EVENT, EFFECT	Risk Owner	Risk type	Risk category	Inherent risk score	12	Impact	Likelihood	
1617CRR02	Risk that failure to retain or recruit staff with the required skills and experience will result in an inability to deliver key projects or services to meet expectations of residents, members, businesses and partners.	Joanna Ruffle	Strategic	Service Provision					
Stage 2 - Risk with Controls and Assurances (current risk)									
List of controls and associated assurances to ensure controls are working					Current risk score	6	Impact	Likelihood	
1. Control: Managing Organisational Change Policy; Redeployment Policy & Procedure; Redundancy Policy & Procedure Assurance: Policy documents available via intranet. 2. Control: Oversight of policies and procedures to ensure consistency of HR policies and processes and in implementing policies relating to restructures through the People Management & Development Working Party; Corporate Management Team and Workforce Planning Panel Assurance: Reports to and Minutes of meetings. 3. Control: All staff vacancies, redeployments and redundancies reviewed by the Workforce Planning Panel Assurance: Minutes of Workforce Planning Panel 4. Control: New recruitment provider to identify recruitment hotspots and plan effective recruitment campaigns Assurance: Service Level Agreement, Contract management.									
Stage 3 - Further actions to reduce the risk (target risk)									
Code	Actions to further mitigate risk / maximise opportunities	Action Owner	Due date	Comments / update on progress	RAG Status	Target risk score	2	Impact	Likelihood
1617CRA0201	Continue to embed Talent Management Strategy (including apprenticeships, graduate traineeships, graduate sponsorships and career progression)	Joanna Ruffle	31-Mar-2017	Dec 16 -Specific action identified within People Management Strategy action plan to progress this work.	✔				
1617CRA0202	Participate in regional Children’s Social Care Workforce project	Joanna Ruffle	31-Mar-2017	Dec 16 -Project continuing into 2nd year, following approval at East of England Chief Executive Forum on 10 June.	✔				
1617CRA0203	Participate in regional Planners Workforce project	Dean Hermitage	31-Mar-2017	Dec 16 - Project now scoped. The Council involved from both HR and operational perspective.	✔				
1617CRA0204	Develop a framework contract to deliver professional/interim resources to supplement the Reed contract	Joanna Ruffle	31-Mar-2017	Dec 16 - Project underway. Project action plan reviewed and agreed by Corporate Management Team.	✔				
1617CRA0205	Role of Resourcing Manager agreed and funded to drive talent management initiatives across the organisation	Joanna Ruffle	31-Mar-2018	Dec 16 - Role of Resourcing Manager has been agreed, funded and appointed. The project plan and talent management initiatives are currently underway and on target.	✔				

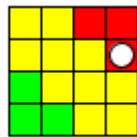
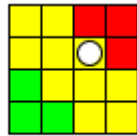
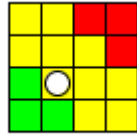
Risk Title	3. Partnership arrangements							
Stage 1 - Risk without controls (Inherent risk)								
Code	Risk - CAUSE, EVENT, EFFECT	Risk Owner	Risk type	Risk category	Inherent risk score	12	<div><div>Impact</div><div>Likelihood</div></div>	
1617CRR03	Risk that failures in partnership working as a result of pressures on partner organisations reduces the ability of the Council to achieve its objectives and adversely affects service provision and council finances.	Rob Tinlin	Strategic	Reputation				
Stage 2 - Risk with Controls and Assurances (current risk)								
List of controls and associated assurances to ensure controls are working					Current risk score	6	<div><div>Impact</div><div>Likelihood</div></div>	
1. Control: Southend Borough Council active member of South East Enterprise Partnership (SELEP) Board and officers aligned to relevant working groups to engage and influence activity and decisions , Assurance: Minutes/Reports 2. Control: Corporate Delivery Board Assurance: Minutes/Reports 3. Control: Success For All Children Group Assurance: Children and Young People Plan/Reports/Minutes 4. Control: Health and Wellbeing Board Assurance: Joint Health and Wellbeing Strategy/Report/Minutes								
Stage 3 - Further actions to reduce the risk (target risk)								
Code	Actions to further mitigate risk / maximise opportunities	Action Owner	Due date	Comments / update on progress	RAG Status	Target risk score	4	<div><div>Impact</div><div>Likelihood</div></div>
1617CRA030114	Work with Mid and South Essex health and social care partners to develop a multi-year Sustainability and Transformation Plan (STP)	Simon Leftley	31-Mar-2017	Dec 16 - STP has been presented to the Health & Wellbeing Board. A consultation period will begin in early 2017.	✔			
1617CRA0302	Work with Government and local partners to develop and deliver a devolution deal which maximises benefits for Southend, building on City Deal and profile of the Thames Gateway	Andrew Lewis	31-Mar-2017	Dec 16 - No further progress in regards to devolution due to an elected Mayor continuing to be a requirements under current arrangements.	✔			
1617CRA0303	Secure funding to ensure on-going sustainability of the BEST Growth Hub within the LEP umbrella	Andrew Lewis	31-Mar-2017	Dec 16 - Successful bid to the European Regional Development Fund, led by the Council, has secured a £12.9m programme to expand and continue Growth Hub delivery across the South East over a 3 year period.	✔			
1617CRA0304	Continue to make the case for Growth Fund Investment in Southend by working with the South Essex Growth Partnership and SELEP.	Andrew Lewis	16-Mar-2017	Dec 16 - Three business cases directly relating to projects in Southend were submitted to the third round of the Local Growth Fund – Airport Business Park, Better Queensway and CONNECT (led by London Southend Airport). A single prioritised list was submitted to Government by the LEP with ABP ranked at number 5. Pending announcement of any funding award post autumn statement	✔			

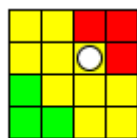
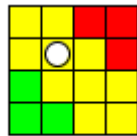
Risk Title	4. Housing Policy								
Stage 1 - Risk without controls (Inherent risk)									
Code	Risk - CAUSE, EVENT, EFFECT	Risk Owner	Risk type	Risk category	Inherent risk score	12	Impact	<div><div><div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div><div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div><div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div></div><div>Likelihood</div></div>	
1617CRR04	Risk that changes to government housing policy (such as selling off high value council properties) and increasing levels of housing need (notably homelessness) results in further significant pressure on council budgets.	Simon Leftley	Strategic	Financial					
Stage 2 - Risk with Controls and Assurances (current risk)									
List of controls and associated assurances to ensure controls are working					Current risk score	9	Impact	<div><div><div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div><div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div><div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div></div><div>Likelihood</div></div>	
1. Control: Core Strategy and Local Development Plan in place Assurance: Strategy documents 2. Control: Cabinet/Scrutiny Assurance: Reports/Meeting minutes 3. Control: Housing Strategy Assurance: Documents									
Stage 3 - Further actions to reduce the risk (target risk)									
Code	Actions to further mitigate risk / maximise opportunities	Action Owner	Due date	Comments / update on progress	RAG Status	Target risk score	6	Impact	<div><div><div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div><div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div><div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div></div><div>Likelihood</div></div>
1617CRR0401	Review and update Housing Strategy in light of the Thames Gateway South Essex Strategic Market Assessment and housing policy announcements.	Sharon Houlden	31-Mar-2017	Dec 16 - Commencing work with the Housing Finance Institute 'Housing Business Ready' review of the housing investment approach including the regeneration of land in the Council's ownership. Introduction session completed and half day workshop with stakeholders in January 2017.	✓				
1617CRR0402	Work in partnership to develop affordable housing	Sharon Houlden	31-Mar-2017	Dec 16 - The Housing Business Ready review output will provide the pathway forward for the development of affordable housing.	✓				
1617CRR0403	Work collaboratively to develop a coordinated approach to homelessness prevention	Sharon Houlden	31-Mar-2017	Dec 16 - Being picked up as an element of the Corporate Housing Strategy. Housing Business Ready review outcomes will provide a pathway forward for this work.	✓				

Risk Title	5. Local Infrastructure							
Stage 1 - Risk without controls (Inherent risk)								
Code	Risk - CAUSE, EVENT, EFFECT	Risk Owner	Risk type	Risk category	Inherent risk score	12	Impact  Likelihood	
1617CRR05	Risk that failure to maintain access to future rounds of the Regional Growth Fund and Department for Transport Challenge Fund will significantly restrict future infrastructure improvements.	Andrew Lewis	Strategic	Financial				
Stage 2 - Risk with Controls and Assurances (current risk)								
List of controls and associated assurances to ensure controls are working					Current risk score	9	Impact  Likelihood	
1. Control: Highway/Footpath Assets Management inventory in place Assurance: Reports 2. Control: Monthly progress reported to DMT and senior managers Assurance: Reports/Minutes 3. Control: Regular reporting to Capital Delivery Board Assurance: Reports/Minutes 4. Control: Cabinet/Scrutiny Assurance: Reports/Meeting minutes								
Stage 3 - Further actions to reduce the risk (target risk)								
Code	Actions to further mitigate risk / maximise opportunities	Action Owner	Due date	Comments / update on progress	RAG Status	Target risk score	4	Impact  Likelihood
1617CRR0501	Produce a Transport Asset Management Plan to support the maintenance and improvement of the roads, pavements and street furniture across the Borough	Paul Mathieson	31-Mar-2017	Dec 16 - Regular meetings with project board, work streams set up with lead officers to complete actions monitored by the Project Officer/Asset Manager. TAMP being developed. Asset Management Self Assessment being pursued and about 2/3's complete but unlikely to meet all requirements for Band 3 by December 2016. Target date for Band 3 is end of June 2017.	✓			
1617CRR0502	Continue to make the case for Growth Fund Investment in Southend by working with the South Essex Growth Partnership and SELEP.	Paul Mathieson	31-Mar-2017	Dec 16 - Three business cases directly relating to projects in Southend were submitted to the third round of the Local Growth Fund – Airport Business Park, Better Queensway and CONNECT (led by London Southend Airport). A single prioritised list was submitted to Government by the LEP with ABP ranked at number 5. Pending announcement of any funding award post autumn statement	✓			
1617CRR0503	Conduct detailed self-assessment to support Challenge Fund bid	Paul Mathieson	31-Mar-2017	Dec 16 - Underway and part of Transport Asset Management Plan project. Challenge fund bid being drawn up for drainage improvements and cliff slips. Information being supplied by elements of Asset Management. Awaiting release of Challenge Fund bid information.	✓			


1617CRR05 04	Complete Whole Government Account return (with Finance Dept)	Paul Mathieson	31-Mar-2017	Dec 16 - Underway and part of Transport Asset Management Plan project. Returns with Finance for review. Finance discussing background data with Audit.				
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Risk Title	6. Alternative service delivery models							
Stage 1 - Risk without controls (Inherent risk)								
Code	Risk - CAUSE, EVENT, EFFECT	Risk Owner	Risk type	Risk category	Inherent risk score	9	<div><div>Impact</div><div>Likelihood</div></div>	
1617CRR06	Risk that failure to effectively manage (staffing, relationships, contracts) the transition to alternative service delivery models results in the organisation not meeting its statutory responsibilities to residents/customers	Simon Leftley; Andrew Lewis	Strategic	Financial				
Stage 2 - Risk with Controls and Assurances (current risk)								
List of controls and associated assurances to ensure controls are working					Current risk score	9	<div><div>Impact</div><div>Likelihood</div></div>	
1. Control: Corporate Delivery Board Assurance: Reports/Meeting minutes 2. Control: Changes to service delivery considered by Scrutiny/Cabinet/Council Assurance: Reports/Minutes. 3. Control: Government Consultations register to record forthcoming changes in Government policy and potential legislation to enable potential implications to be considered. Assurance: Consultation register held on intranet. 4. Control: Regular tracking of new legislation, government regulations and policy developments. Assurance: Production of Policy briefings and reports to Corporate Management Team.								
Stage 3 - Further actions to reduce the risk (target risk)								
Code	Actions to further mitigate risk / maximise opportunities	Action Owner	Due date	Comments / update on progress	RAG Status	Target risk score	4	<div><div>Impact</div><div>Likelihood</div></div>
1617CRA0601	Explore alternative delivery models for Adult Social Care services	Simon Leftley	31-Mar-2017	Dec 16 - The design of the locality model for services has been completed and the work has moved into the implementation stage. Work streams being overseen by Sharon Houlden. The Local Authority Trading Company, for adult social care, will be in place, in shadow form, from Jan 17 and will go live from April 17.	✔			
1617CRA0602	Implement the new model of service delivery for Ground Maintenance Service	Scott Dolling	31-Mar-2017	Dec 16 - New model for service delivery fully implemented 1st April 2016.	✔			
1617CRA0603	Implement the outcome of the Library Review in accordance with the delivery plan contained within the Library Development Strategy 2013 – 2028	Scott Dolling	31-Mar-2017	Dec 16 - Kent Elm's Capital Improvement works completed November 2016. Westcliff Library works due to start January 2017 and Leigh Library works to be carried over.	✔			
1617CRA0604	Continue to embed the Council’s new frontline waste collection, street cleansing and ancillary service contracts	Dipti Patel	31-Mar-2017	Dec 16 - The contract continues to be actively monitored to ensure that performance complies with the specification.	✔			

Risk Title	7. Health and Social Care Integration								
Stage 1 - Risk without controls (Inherent risk)									
Code	Risk - CAUSE, EVENT, EFFECT	Risk Owner	Risk type	Risk category	Inherent risk score	12	Impact	 Likelihood	
1617CRR07	Risk that failure to integrate health and social care effectively (inc Pioneer, Better Care Fund (BCF) and Care Act) will harm the ability of the health and care system to operate at optimal levels, adversely affecting service provision and council finances.	Simon Leftley	Strategic	Service provision, Financial					
Stage 2 - Risk with Controls and Assurances (current risk)									
List of controls and associated assurances to ensure controls are working					Current risk score	9	Impact	 Likelihood	
1. Control: Joint Executive Group (JEG). Assurance: Reports/Meeting Minutes. 2. Control: Health and Wellbeing Board. Assurance: Reports/Meeting Minutes. 3. Control: Locality Transformation Group. Assurance: Reports/Meeting Minutes. 4. Control: Corporate Delivery Board. Assurance: Reports/Meeting Minutes.									
Stage 3 - Further actions to reduce the risk (target risk)									
Code	Actions to further mitigate risk / maximise opportunities	Action Owner	Due date	Comments / update on progress	RAG Status	Target risk score	4	Impact	 Likelihood
1617CRA0701	Ensure that the Health and Wellbeing Strategy is underpinned by relevant performance indicators	Simon Leftley	30-Sep-2016	Dec 16 A robust performance framework is in place and is routinely reported to Health and Wellbeing Board. The board continues to review priorities and are currently reviewing focus of activity for the next 12 months. Any change in priorities will require a realignment of performance management framework.	🟢				
1617CRA0702	Work with Southend Clinical Commissioning Group (CCG) and partners to support Integrated Pioneer status	Simon Leftley	31-Mar-2017	Dec 16 - Integrated Commissioning function now well established between CCG and SBC. Work programme to support the Pioneer is now completely aligned with BCF work programme re Locality Transformation and the redesign of adult social care.	🟢				
1617CRA0703	Better Care Fund (BCF)	Simon Leftley	31-Mar-2017	Dec 16 - BCF for 16/17 continues to align with the strategic objectives that are driving the integration of health and social care. Planning guidance for 17/18 is due to be published early Jan 2017 which will further support the direction to integrate health and social care services. The publication of the guidance will enable Southend to plan our activity for 17/18 thus further mitigating this risk.	🟢				

Risk Title	8. Contract Management								
Stage 1 - Risk without controls (Inherent risk)									
Code	Risk - CAUSE, EVENT, EFFECT	Risk Owner	Risk type	Risk category	Inherent risk score	9	Impact		
									Likelihood
1617CRR08	Risk that failure to embed effective contract management, combined with contract price inflation, across the authority will result in a loss of value for money, saving opportunities and/or quality of service provision.	Simon Leftley	Strategic	Financial					
Stage 2 - Risk with Controls and Assurances (current risk)									
List of controls and associated assurances to ensure controls are working					Current risk score	6	Impact		
									Likelihood
1. Control: Contract price inflation clauses (linked to government indices) included within Highways contracts, Assurance: Contract documentation 2. Control: Capital Projects Board Assurance: Reports/Meeting Minutes 3. Control: Corporate Delivery Board Assurance: Reports/Meeting Minutes 4. Control: Contract management arrangements Assurance: Contract documentation/minutes/meetings									
Stage 3 - Further actions to reduce the risk (target risk)									
Code	Actions to further mitigate risk / maximise opportunities	Action Owner	Due date	Comments / update on progress	RAG Status	Target risk score	4	Impact	
									Likelihood
1617CRR0801	Governance and Monitoring of highway contracts to ensure proper management including new processes and workflows to support the management of these contract	Paul Mathieson	31-Mar-2017	Dec 16 - Governance structure, including project board, in place. Regular meetings with the contractors to monitor performance. New processes and workflows still being developed e.g. Symology and in conjunction with Asset Management Plan.	✓				
1617CRR0802	Employ where appropriate professional cost advice on all major projects and update and refresh cost plans on regular basis.	Andrew Lewis	31-Mar-2017	Dec 16 - Utilising in house expertise and conducting early contractor involvement. Call-off framework for cost consultation advice being utilised where required. Project variations reported to Corporate Delivery Board.	✓				
1617CRR0803	Deliver a programme of contract management training and support across the organisation.	Mark Atkins	31-Mar-2017	Dec 16 - 14 staff members have attended the first training session on 6th December. Further sessions are being scheduled for early New Year with the next tranche of Contract Managers. Feedback session well received, very practical and hands on.	✓				

Risk Title	9. Secondary education and school places							
Stage 1 - Risk without controls (Inherent risk)								
Code	Risk - CAUSE, EVENT, EFFECT	Risk Owner	Risk type	Risk category	Inherent risk score	9	<div><div>Impact</div><div>Likelihood</div></div>	
1617CRR09	Risk that failure to provide the required number of school places and to narrow the gap in results at secondary schools will lead to an undesirable level of young people NEET and significant reputational damage for the Council.	Simon Leftley	Strategic	Reputational				
Stage 2 - Risk with Controls and Assurances (current risk)								
List of controls and associated assurances to ensure controls are working					Current risk score	6	<div><div>Impact</div><div>Likelihood</div></div>	
1. Control: Improving Learning Together Strategy in place with impact reviewed by Success for All Group Assurance: Report/Minutes. 2. Control: Partnership with South Essex Teaching School Alliance (SETSA) established Assurance: Reports/Minutes. 3. Control: Pupil Premium Strategy Group Assurance: Reports/Minutes. 4. Control: School Support Improvement Board Assurance: Reports/Minutes. 5. Control: Success for All Children Group Assurance: Reports/Minutes.								
Stage 3 - Further actions to reduce the risk (target risk)								
N Code	Actions to further mitigate risk / maximise opportunities	Action Owner	Due date	Comments / update on progress	RAG Status	Target risk score	4	<div><div>Impact</div><div>Likelihood</div></div>
1617CRA0901	Further develop the School Led School Improvement System (school-to-school support).	Brin Martin	16-Jul-2017	Dec 16 - the service level agreement with SETSA is now in place and running. The action plan and KPIs are monitored at a monthly meeting with SETSA. Further commissioning in this contract is due to start early in the new year.	✔			
1617CRA0902	Provide support to secondary schools causing concern (including working with Regional Commissioner).	Brin Martin	31-Jul-2017	Dec 16 - Direct work with Futures continues ahead of their proposed conversion to become an academy. Indirect support and dialogue to the other two secondary school operates through our work on the Education Board with the Regional Schools Commissioner	✔			
1617CRA0903	Develop a secondary school places strategy to cater for the increasing pupil numbers.	Brin Martin	31-Mar-2017	Dec 16 - Following the meeting of the member led school places working party, options are being worked up that will allow us to develop sufficient school places by 2020 to meet current need.	✔			
1617CRA0904	Establish a strategic Education Board to co-ordinate and monitor performance and policy.	Brin Martin	31-Mar-2017	Dec 16 - Education Board is now established and functioning. Associated sub groups are in place for some areas. The Board has recently undertaken an external audit, and received	✔			

				positive feedback.				
1617CRA0905	Develop an Education and Skills Strategy	Brin Martin	31-Mar-2017	Dec 16 - The establishment of the virtual skills academy has taken place with colleagues in place and external partners. This group will continue to promote opportunities for Southend students to progress in their chosen career options.				

Risk Title	10. Surface water flooding							
Stage 1 - Risk without controls (Inherent risk)								
Code	Risk - CAUSE, EVENT, EFFECT	Risk Owner	Risk type	Risk category	Inherent risk score	12	Impact	<div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></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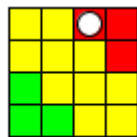
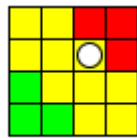
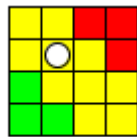
Risk Title	11. Seafront cliff movement							
Stage 1 - Risk without controls (Inherent risk)								
Code	Risk - CAUSE, EVENT, EFFECT	Risk Owner	Risk type	Risk category	Inherent risk score	12	<div>Impact</div> <div><div><div><div></div><div></div><div></div><div></div></div><div><div></div><div></div><div></div><div></div></div><div><div></div><div></div><div></div><div></div></div><div><div></div><div></div><div></div><div></div></div></div><div>Likelihood</div></div>	
1617CRR11	Risk that a seafront cliff movement will result in damage to property, transport dislocation and significant financial and reputational damage to the Council.	Andrew Lewis	Strategic	Reputational, Financial				
Stage 2 - Risk with Controls and Assurances (current risk)								
List of controls and associated assurances to ensure controls are working					Current risk score	9	<div>Impact</div> <div><div><div><div></div><div></div><div></div><div></div></div><div><div></div><div></div><div></div><div></div></div><div><div></div><div></div><div></div><div></div></div><div><div></div><div></div><div></div><div></div></div></div><div>Likelihood</div></div>	
1. Control: Corporate Deliver Board Assurance: Reports/Minutes 2. Control: Regular reporting to DMT Assurance: Reports/Minutes 3. Control: Cabinet/Scrutiny Assurance: Reports/Meeting minutes								
Stage 3 - Further actions to reduce the risk (target risk)								
Code	Actions to further mitigate risk / maximise opportunities	Action Owner	Due date	Comments / update on progress	RAG Status	Target risk score	6	<div>Impact</div> <div><div><div><div></div><div></div><div></div><div></div></div><div><div></div><div></div><div></div><div></div></div><div><div></div><div></div><div></div><div></div></div><div><div></div><div></div><div></div><div></div></div></div><div>Likelihood</div></div>
1617CRR1101	Development of a Cliff Slip Strategy based on a risk minimisation approach	Richard Atkins	31-Mar-2017	Dec 16 - Specification and bid documents completed in draft for appointment of expert support. To be issued to tenders as soon as possible.	🟢			
1617CRR1102	Completion of stabilisation work at Clifton Drive	Richard Atkins	31-Mar-2017	Dec 16 - Scheme complete including the installation of cascade stairway, which was originally omitted due to a casting error by the Contractor. Planting by Parks to proceed.	🟢			


Risk Title	12. Ofsted joint inspection							
Stage 1 - Risk without controls (Inherent risk)								
Code	Risk - CAUSE, EVENT, EFFECT	Risk Owner	Risk type	Risk category	Inherent risk score	9	<div>Impact</div> <div>Likelihood</div>	
1617CRR12	Risk that the actions and expected outcomes from the Children's Services Improvement Plan are not achieved within expected timescales, resulting in a failure to achieve a rating of 'Good' in future Ofsted inspection.	Simon Leftley	Strategic	Reputational				
Stage 2 - Risk with Controls and Assurances (current risk)								
List of controls and associated assurances to ensure controls are working					Current risk score	9	<div>Impact</div> <div>Likelihood</div>	
1. Control: Monitoring and updating of the Children Service's Improvement Plan by the CS Improvement Board. Assurance: Reports/minutes of CS Improvement Board meetings. 2. Control: Monitoring and updating of the Leadership Narrative Document for Children's services. Assurance: Report/Minutes of Children's Services Improvement Board meetings. 3. Control: Children's Service Improvement Board bi-monthly meetings Assurance: Report/Minutes. 4. Control: Children's Departmental Management Team. Assurance: Monthly Performance reports/ minutes of meetings. 5. Control: People Extended DMT Assurance: Reports to/notes from meetings. 6. Control: Local Safeguarding Children's Board (LSCB) to complement the children's service improvement plans Assurance: Reports/minutes. 7. Control: Improvement Board Independent Expert, advice and support. Assurance: Reports to John O'Loughlin, Simon Leftley and the Improvement Board.								
Stage 3 - Further actions to reduce the risk (target risk)								
Code	Actions to further mitigate risk / maximise opportunities	Action Owner	Due date	Comments / update on progress	RAG Status	Target risk score	6	<div>Impact</div> <div>Likelihood</div>
1617CRR1204	Establish a Children's Services Improvement Plan Scrutiny Panel to provide further oversight of progress in implementation of the Improvement Plan	John O'Loughlin	31-Mar-2017	Dec 16 - Scrutiny Sub-committee membership established. First meeting to be held on 19 January. The Panel will meet on alternate months to the Children's Services Improvement Board. Terms of Reference and work-plan to be agreed at first meeting.	✔			
1617CRR1205	Develop and enhance the resourcing available to the Council's Children's Service, with the recruitment of additional social workers; the embedding the work of the recently appointed 'Practise Lead' to promote good practice and 'Participation Lead' to	John O'Loughlin	31-Mar-2017	Dec 16 - Five of the six social workers are now in post. The Practice Lead and Participation Lead are now in post an Participation.	✔			
1617CRR1206	Implementation of the new social care management system, Liquid Logic, due to go live from April 2017	John O'Loughlin	31-Mar-2017	Dec 16 - Project board in place with project plan being reviewed at each meeting. Implementation on track to meet target.	⚠			

1617CRR1207	Implement and embed the Early Help Phase 2 programme, which, working in partnership with other care professionals will aim to improve the first contact service for vulnerable children.	John O'Loughlin	31-Mar-2017	Dec 16 - Early stages of programme. Progress focussed on ensuring positive engagement with/from care partners.				
1617CRR1208	Embed the new Edge of Care Team, to support those children at risk of entering, or re-entering, the care system (particularly older children at risk from the breakdown of foster care placements.	John O'Loughlin	31-Mar-2017	Dec 16 - New team has started with effect from November. Recruitment currently taking place, with some posts filled.				
1617CRR1209	Develop and monitor a new Children's Service, Service Plan, to complement the Children's Service Improvement Plan.	John O'Loughlin	31-Mar-2017	Dec 16 - Children's Services Service Plan for 2017/18 currently being developed.				
1617CRR1210	Undertake a full budget and performance review of Children's Services to assess levels of resourcing against the demand for services.	Simon Leftley	31-Mar-2017	Dec 16 - Scope of review has been agreed. Review due to begin shortly with a timescale of 12 weeks				

Risk Title	13. Waste Management							
Stage 1 - Risk without controls (Inherent risk)								
Code	Risk - CAUSE, EVENT, EFFECT	Risk Owner	Risk type	Risk category	Inherent risk score	12	<div><div>Impact</div><div>Likelihood</div></div>	
1617CRR13	Risk that failure to effectively manage waste contractual arrangements results in additional financial liability for the Council and loss of service quality.	Andrew Lewis	Strategic	Reputational, Financial				
Stage 2 - Risk with Controls and Assurances (current risk)								
List of controls and associated assurances to ensure controls are working					Current risk score	9	<div><div>Impact</div><div>Likelihood</div></div>	
1. Control: Regular contract management meetings with suppliers Assurance: Meeting Minutes/Reports 2. Control: Data set monitored by DMT and senior managers Assurance: Reports/Minutes 3. Control: Cabinet/Scrutiny Assurance: Reports/Meeting minutes								
Stage 3 - Further actions to reduce the risk (target risk)								
Code	Actions to further mitigate risk / maximise opportunities	Action Owner	Due date	Comments / update on progress	RAG Status	Target risk score	6	<div><div>Impact</div><div>Likelihood</div></div>
1617CRR1301	Ensure contractors are performing to service outputs and that performance management is monitored to achieve service standards as specified within relevant contracts	Dipti Patel	31-Mar-2017	Dec 16 - The contract continues to be actively monitored to ensure that performance complies with the specification.				
1617CRR1302	New Mechanical Biological Treatment Waste Facility to become fully operational (currently in commissioning).	Dipti Patel	31-Mar-2017	Dec 16 - The MBT facility is currently within the commissioning phase. All Southend Borough Council's household waste being taken into the MBT. Several contractor performance issues identified are causing concern. This is being tracked through the Essex and Southend Officer/Member Board meetings.				

Risk Title	14. Health Lifestyles							
Stage 1 - Risk without controls (Inherent risk)								
Code	Risk - CAUSE, EVENT, EFFECT	Risk Owner	Risk type	Risk category	Inherent risk score	9	<div>Impact</div> <div>Likelihood</div>	
1617CRR14	Risk that continued pressure on the health system including Public Health funding results in a failure to adequately address lifestyle behaviours and reduce health inequalities.	Andrea Atherton	Strategic	Financial, Service Provision				
Stage 2 - Risk with Controls and Assurances (current risk)								
List of controls and associated assurances to ensure controls are working					Current risk score	6	<div>Impact</div> <div>Likelihood</div>	
1. Control: Joint Executive Group (JEG). Assurance: Reports/Meeting Minutes. 2. Control: Health and Wellbeing Board. Assurance: Reports/Meeting Minutes. 3. Control: Monthly data set monitored by DMT and senior managers: Assurance: Report/Minutes 4. Control: Cabinet/Scrutiny Assurance: Reports/Meeting minutes								
Stage 3 - Further actions to reduce the risk (target risk)								
Code	Actions to further mitigate risk / maximise opportunities	Action Owner	Due date	Comments / update on progress	RAG Status	Target risk score	4	<div>Impact</div> <div>Likelihood</div>
1617CRR1401	Implement the Southend physical activity strategy	Margaret Gray	31-Mar-2017	Dec 16 -Southend Physical Activity Strategy agreed by Cabinet, 28th June, following consideration by People and Place Scrutiny Committees and Health and Wellbeing Board. A multi-agency, physical strategy implementation group has been established and is now meeting to oversee delivery of the action plan.	✓			
1617CRR1402	Develop a social marketing programme to raise awareness of main lifestyle risk factors contributing to poor health	Andrea Atherton	31-Mar-2017	Dec 16 - 'One-You' campaign launched in July and 'One-You' strategy developed. Internal Officer Group established and implementation continues, with all social marketing events based on 'One You' material.	✓			
1617CRR1403	Mobilise the Southend Healthy Lifestyle Service	Margaret Gray	31-Mar-2017	Dec 16 - Service launched at beginning of June. Service incorporates advice and prevention initiatives. An action plan is in place and work has been undertaken with Primary Care providers to publicise the service and maximise referrals.	✓			
1617CRR1404	Continue to deliver Southend Public Health Responsibility Deal for local employers	James Williams	31-Mar-2017	Dec 16 - Performance currently strong for number of businesses signing up. Engagement is taking place with a wide range of employers (including schools) and businesses in Southend.	✓			

Risk Title	15. Major Developments						
Stage 1 - Risk without controls (Inherent risk)							
Code	Risk - CAUSE, EVENT, EFFECT	Risk Owner	Risk type	Risk category	Inherent risk score	12	Impact  Likelihood
1617CRR15	Risk that failure to progress major infrastructure developments (e.g. Seaways, Airport Business Park and Queensway) will result in significant financial and reputational damage to the Council.	Simon Leftley; Andrew Lewis	Strategic	Reputational, Financial			
Stage 2 - Risk with Controls and Assurances (current risk)							
List of controls and associated assurances to ensure controls are working					Current risk score	9	Impact  Likelihood
1. Control: Corporate Deliver Board. Assurance: Reports/Minutes. 2. Control: Capital Projects Board Assurance: Reports/Meeting Minutes 3. Control: Project Boards Assurance: Reports/Meeting Minutes 4. Control: Cabinet/Scrutiny Assurance: Reports/Meeting minutes							
Stage 3 - Further actions to reduce the risk (target risk)							
Code	Actions to further mitigate risk / maximise opportunities	Action Owner	Due date	Comments / update on progress	RAG Status	Target risk score	Impact  Likelihood
1617CRR1501	Queensway Area Regeneration Project, 16/17 actions: • Progress the finance option & housing plans for the Queensway area regeneration project • Consultation & communication with existing Queensway residents to inform specifications for the redevelopment.	Simon Leftley; Andrew Lewis	31-Mar-2017	Dec 16 - A report to Cabinet was agreed in Sept 2016 allowing progression to be made. A series of presentations have been given to Members and residents and the plans have been received positively.	✓		
1617CRR1502	Airport Business Park 2016/17 actions: • To commence Phase 1 infrastructure works • To agree Westcliff Rugby Club relocation strategy and commence work • To submit a planning application for the Innovation centre	Andrew Lewis	31-Mar-2017	Dec 16 - Phase 1 infrastructure commenced December 2016 and Pitches Contracts underway 1-2 months behind target programme. Expenditure of the £3.2m by the end of March 2017 remains at risk. The risk is reduced now that works have commenced. The expected expenditure by the end of March 2017 is approx. £3.5m subject to weather and performance of Contractors; Westcliff Rugby Club relocation terms are agreed and licence is signed, no longer a risk to progress. Innovation Centre and Phase 2 Funding via SELEP – approval awaited.	✓		
1617CRR1503	Seaway Car Park 2016/17 actions: • To support Turnstone to submit a	Joe Chesterton	31-Mar-2017	Dec 16 - Continuing to support Turnstone with planning application and tenant negotiations.	✓		

	planning application • To meet the Coach Park Relocation Condition •To support Turnstone in securing prime tenants			Work is currently underway on the options for Coach Park Relocation condition.				
1617CRR1504	Generally to ensure that all major infrastructure projects do not have adverse impacts on Southend e.g. on the highways network	Andrew Lewis	31-Mar-2017	Dec 16 - Continued proactive approach to managing projects to ensure appropriate phasing. Council managing the Growth Fund projects to ensure that any disruption is kept to an absolute minimum.				

Report of Chief Executive

to

Audit Committee

on

18 January 2017

Report prepared by: Joe Chesterton
Director of Finance and Resources

Treasury Management Policy for 2017/18

Executive Councillor: Councillor Moring

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To submit the treasury management policy for 2017/18 to Audit Committee for scrutiny before approval by Council as part of the annual budget process.

2. Recommendation

- 2.1 That Audit Committee scrutinises and offers comments on the treasury management policy which comprises the following three documents:

- Treasury Management Policy Statement for 2017/18;
- Treasury Management Strategy for 2017/18;
- Annual Investment Strategy for 2017/18.

3. Background

- 3.1 The treasury management policy is agreed in advance of the year to which it relates. The policy is then monitored regularly and is updated, as appropriate, to reflect changing circumstances and guidance.
- 3.2 At its meeting of 13 January 2010 the Audit Committee agreed a report on the implementation of the revised CIPFA (Chartered Institute of Public Finance and Accountancy) Treasury Management Code of Practice. One of the recommendations of the code is that the treasury management policy should be scrutinised in detail by a specialist committee, before being accepted by the authority.

- 3.3 At its meeting of 25 February 2010 Council amended the terms of reference of the Audit Committee to include scrutiny of the treasury management policy. From April 2010 onwards, the Audit Committee has been responsible for ensuring its effective scrutiny.
- 3.4 Since the approval by Council in February 2016 and as a result of the amendments to the Council's senior management structure approved at the Cabinet meeting of 20 September 2016, it was necessary to make the following amendments to the Treasury Management Policy Statement and Treasury Management Strategy for 2016/17:
- references to the Head of Finance and Resources have been replaced with Director of Finance and Resources;
 - in the current approved policy the approval of short/long term investments is delegated to the Chief Finance Officer and in their absence is delegated to the Deputy Section 151 Officer or the Director of Corporate Services. In the revised Annex 1 to the policy the reference to the Director of Corporate Services has been replaced by the Group Manager (Financial Planning & Control).
- These changes were approved by Cabinet at its meeting of 8 November 2016.
- 3.5 In compliance with the CIPFA Treasury Management Code of Practice the Council's treasury management policy comprises:
- the Treasury Management Policy Statement;
 - the Treasury Management Strategy;
 - the Annual Investment Strategy.
- 3.6 The purpose of the Treasury Management Policy Statement is to set out the scope of the Treasury Management function, the policy on borrowing, debt restructure, investments, delegation and management of risk. The proposed Treasury Management Policy Statement for 2017/18 is attached as **Appendix 1**.
- 3.7 The purpose of the Treasury Management Strategy is to set out how the budgeted financing costs can be achieved. It covers the prospects for interest rates and the strategy on borrowing and debt restructuring. The proposed Treasury Management Strategy for 2017/18 is attached as **Appendix 2**.
- 3.8 The purpose of the Annual Investment Strategy is to set out the investment objectives and the policies on the use of external fund managers, on the investment of in-house managed funds and on the use of approved counterparties. The proposed Annual Investment Strategy for 2017/18 is attached as **Appendix 3**.
- 3.9 Appendices 1, 2 and 3 together form the treasury management policy and are used on a daily basis for the effective running of the treasury management function.
- 3.10 In response to the on-going economic and financial market conditions, and in consultation with our treasury management advisers, the treasury management

policy has been updated for the 2017/18 financial year. The changes from the revised 2016/17 policy are shown in **Appendix 4**.

- 3.11 The policy and strategy documents are written in order to provide officers and advisers with clear boundaries within which to work but as a result they are written using technical language. Treasury management training has been offered to all councillors to aid understanding of the issues and further training will be available in the future.

4. Corporate Implications

4.1 Contribution to Council's Vision & Critical Priorities

The Treasury Management Strategy sets out how the financing costs as part of the Medium Term Financial Plan may be achieved. The treasury management policy together with the prudential indicators, acknowledge how effective treasury management will provide support towards the achievement of the Council's Vision and Critical Priorities.

4.2 Financial Implications

The financial implications of the proposed capital programme will be considered in the forthcoming budget reports to Cabinet. Other financial implications are dealt with throughout this report.

4.3 Legal Implications

Compliance with the relevant regulations and codes of practice has been considered throughout this report.

4.4 People Implications

None

4.5 Property Implications

None

4.6 Consultation

The key treasury management decisions are taken in consultation with our treasury management advisers.

4.7 Equalities and Diversity Implications

None

4.8 Risk Assessment

The treasury management policy acknowledges that the successful identification, monitoring and management of risk are fundamental to the effectiveness of its activities.

4.9 Value for Money

Treasury management activities include the pursuit of optimum performance consistent with effective control of the risks associated with those activities.

4.10 Community Safety Implications

None

4.11 Environmental Impact

None

5. Background Papers

5.1 None.

6. Appendices

6.1 Appendix 1 – Treasury Management Policy Statement 2017/18

6.2 Appendix 2 – Treasury Management Strategy 2017/18

6.3 Appendix 3 – Annual Investment Strategy 2017/18

6.4 Appendix 4 – Changes from the revised 2016/17 Treasury Management Policy

SOUTHEND-ON-SEA BOROUGH COUNCIL

TREASURY MANAGEMENT POLICY STATEMENT 2017/18

1 Background

- 1.1 The purpose of this statement is to outline the Council's treasury management policy.
- 1.2 The CIPFA Code of Practice on Treasury Management recommends that Local Authorities:
 - Adopt the CIPFA code
 - Create and maintain both a Treasury Management Policy Statement and suitable Treasury Management practices
 - Appoint an officer to whom Treasury Management is delegated
 - Submit reports regularly
- 1.3 Cabinet approved adoption of the CIPFA code of Practice for Treasury Management at its meeting on 12 February 2002. CIPFA published the revised Code of Practice for Treasury Management on 27 November 2009, the implementation of which was the subject of a report to Audit Committee submitted to its meeting of 13 January 2010.
- 1.4 There is a requirement in the revised code that the treasury management policy should be scrutinised in detail by a specialist committee, before being accepted by the authority, and should be monitored regularly.
- 1.5 The treasury management policy is agreed in advance of the year to which it relates. The policy is then monitored regularly and is updated, as appropriate, to reflect changing circumstances and guidance.
- 1.6 The Council has nominated the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management policy, before approval by full Council as part of the approval of the budget.
- 1.7 The Chief Finance Officer (Section 151 Officer under the Local Government Act 1972) is the person responsible for the treasury management function.
- 1.8 The revised code requires that, as a minimum, reporting should include an annual strategy in advance of the year, a mid-year review and an annual report after its close. The reporting and scrutiny of the strategy and policy are dealt with above. Reports on the activities of the treasury management function will be submitted to Cabinet quarterly. One such report will comprise an annual report for presentation before

31 July of the succeeding year. Another report will be a mid-year review reporting in November of each year.

2 Duration of the Policy Statement

- 2.1 This Treasury Management Policy Statement covers the 2017/18 financial year.

3 Scope of the Treasury Management Function

- 3.1 The Council defines its treasury management activities as:
- the management of the organisation's investments and cash flows, its banking, money market and capital market transactions;
 - the effective control of the risks associated with those activities;
 - the pursuit of optimum performance consistent with those risks.
- 3.2 The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council.
- 3.3 The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.
- 3.4 The Council acknowledges that responsibility for the effective management and control of risk lies with the authority.

4 Use of a treasury management adviser

- 4.1 The services of a treasury management adviser, Capita Asset Services, will be used throughout 2017/18 to assist the Council to develop and enhance the performance of the treasury management function.
- 4.2 The role of this adviser is to provide relevant and timely information and advice on all aspects of treasury management.
- 4.3 The Council recognises that responsibility for treasury management decisions remains with the authority at all times.

5 Funding requirements for the capital programme

5.1 The following methods of funding have been identified as being available to the Council for use in 2017/18:

- Borrowing;
- Use of capital receipts - from the sale of surplus assets;
- Use of Government Grants – e.g. Local Growth Fund, or grants from the Department for Education;
- Other external contributions – e.g. Section 106 agreements;.
- Revenue funding – transferred from the Revenue Account

5.2 No additional funding source will be used without the agreement of the Cabinet.

6 Limits on external borrowings

6.1 The Council must set an operational boundary and authorised limit for external debt. The operational boundary is how much external debt the Council plans to take up, and reflects the decision on the amount of debt needed for the Capital Programme for the relevant year. The authorised limit is higher than the operational boundary as it allows sufficient headroom to take account of unusual cash movements.

6.2 The table below shows the operational boundary and authorised limits for borrowing for 2016/17 and 2017/18:

	2016/17 Original £m	2016/17 Revised £m	2017/18 Original £m
Operational boundary	280	265	285
Authorised limit	290	275	295

In accordance with the Prudential Code these limits exclude outstanding debt relating to services transferred from Essex County Council (ECC) on 1 April 1998. These limits and other borrowing figures throughout these appendices reflect the capital programme as approved by Cabinet on 8 November 2016, and include any proposed new capital bids being considered as part of the 2017/18 budget process. The Treasury Management policy will be amended accordingly in line with the final Cabinet proposals for the Council budget meeting on 23 February 2017.

7 Policy on sources and types of long term borrowing

7.1 The Council's long term borrowing (i.e. for more than one year) for 2017/18 will be via any type of loan from the Public Works Loan Board (which is a statutory body whose function is to lend money to local authorities and other prescribed bodies) or from banks, building societies or other financial institutions as appropriate.

- 7.2 In addition, if it is deemed to be economically advantageous the Section 151 Officer, in consultation with our Treasury Management advisers, can issue bonds to raise funds, either in this council's name or collaboratively with other Local Authorities or via the Local Government Association (LGA), and either as a private or public placement.
- 7.3 In addition, if it is deemed to be economically advantageous the Section 151 Officer, in consultation with our Treasury Management advisers, can borrow from other Local Authorities.
- 7.4 In addition, if it is deemed to be economically advantageous the Section 151 Officer, in consultation with our Treasury Management advisers, can borrow for the purposes of financing regeneration and other infrastructure related projects.
- 7.5 The PWLB is usually the most economic source available to the Council. Following the Spending Review in October 2010, interest on PWLB loans were increased to 1 per cent above UK government gilts. However, on 1 November 2012 HM Treasury implemented a 'certainty rate' at a discount on that level of 0.2% on loans for those local authorities providing improved information and transparency on their locally-determined long-term borrowing and associated capital spending plans. This Council provided the necessary information and is therefore eligible for this 'certainty rate'.
- 7.6 The Autumn Statement in 2012 announced that the Government would make available a new concessionary public works loan rate to support strategic local capital investment projects. The PWLB project rate at 0.4% below the standard rate (across all loan types and maturities) became available from 1 November 2013. The Government is asking each Local Enterprise Partnership to work with Local Authorities in their area to agree which projects should benefit from the cheaper borrowing rate. HM Treasury has approved Southend's application to borrow at the project rate for specified projects only.
- 7.7 Financing arrangements other than borrowing will be in the form of leases. These will be taken out to finance the purchase or use of assets such as equipment or vehicles.
- 7.8 In May 2016 HM Treasury launched a consultation proposing the abolition of the PWLB and the transfer of its functions to another body with the suggestion that this should be the Commissioners of the Treasury. The Government has now assessed the responses and plans to move forward with its proposal and will lay before Parliament a draft Order to implement the changes. It is not anticipated that the changes will have any tangible impact on the Council's ability to borrow but will mean the Treasury Management Strategy will need to be revised to replace references to the PWLB with references to HM Treasury.

8 Timing of new borrowing

- 8.1 New borrowing will be undertaken as and when required to finance capital. The Council's Section 151 Officer is authorised to make application for loans during 2017/18 that are deemed appropriate for the long term financing of capital. The amount and timing of these loans will have regard to the Council's cash flow, the PWLB interest rates and the future requirements of the capital programme.

9 Debt restructuring policy

- 9.1 Some of the Council's borrowings are at a higher interest rate than the current rate of borrowing. To redeem these loans before their maturity date (i.e. to redeem them early) the Council would be required to pay a premium (this is like paying to redeem a mortgage early except the amount of the penalty depends on the prevailing rate of interest). New loans could then be taken out at the current rate. The savings to be made by paying interest at a lower rate need to be offset by the premiums payable before a decision is made as to whether this would be economically advantageous.
- 9.2 Similarly, some of the Council's borrowings can be at a lower interest rate than the current rate of borrowing. To redeem these loans early the Council would receive a discount (this is the opposite of a premium). New loans could then be taken out at the current rate. The discount receivable would need to be offset by the higher rate of interest paid before a decision is made as to whether this would be economically advantageous.
- 9.3 The Council will undertake debt restructuring as and when appropriate opportunities arise. The main objective of a restructure will be to produce reductions in financing costs as part of an overall budget strategy. The advice of our treasury management advisers would be sought. Members would be notified via the quarterly reporting to Cabinet on treasury management activities.

10 Investments

- 10.1 See the Annual Investment Strategy.

11 The approved activities of the Treasury Management operation are as follows:

- Risk management;
- Cash flow management (daily balance and longer term forecasting);
- Investing surplus funds in approved investments;
- Use of brokers for placing investments;
- Investing surplus funds with external fund managers;
- Long term borrowing to fund the capital programme;
- Short term borrowing for cash flow purposes;
- Management of debt (including repayment and rescheduling);
- Capital receipts management;
- Leasing arrangements for the Council (including schools);
- Banking activities;
- Training for members and officers;
- Prevention of money laundering.

12 Responsibility for the treasury management function

- 12.1 Under the constitution the Council's Section 151 officer who is the Chief Finance Officer (currently the Director of Finance and Resources), must take all steps that are considered appropriate for the administration of the financial affairs of the Council. This includes responsibility for the treasury management function.
- 12.2 The table in Annex 1 shows the treasury management activities and the sub-delegated responsibilities from the Chief Finance Officer to others.
- 12.3 Officers are required to explicitly follow policies and procedures.
- 12.4 The training needs of staff and members with treasury management responsibilities are assessed on a regular basis and training is arranged as necessary.

13 Risks

- 13.1 The overriding principle is that it is more important to balance risks than to maximise returns.

Credit and Counterparty risk

- 13.2 This is the risk that the organisation with which we have invested money becomes insolvent and cannot pay us back our investment. A prime objective of treasury management activities is the security of the principal sums invested and this is placed ahead of the investment return.

- 13.3 Accordingly investment activities are limited to the instruments, methods and techniques referred to in the Annual Investment Strategy. The use of limits and a combined matrix of investment criteria using credit ratings reflects a prudent attitude towards organisations with whom funds may be deposited. Investment activities will be limited to those who meet the criteria in this matrix when the investment is placed, with the exception of the UK part-nationalised banks and the Council's bank, and then limited by other relevant market information.
- 13.4 The policy in respect of those organisations from which the council may borrow, or with whom it may enter into other financing arrangements is set out in this Treasury Management Policy Statement and in the Annual Investment Strategy.

Liquidity risk

- 13.5 This is the risk that there will be insufficient cash available to make payments as they fall due. The Chief Finance Officer will ensure that cash resources are adequate, though not excessive, and that borrowing arrangements are available at all times to enable the Council to achieve its business objectives.

Interest Rate risk

- 13.6 Interest rates will be reviewed as part of the ongoing monitoring arrangements to ensure that, as far as possible, investments are made so as to maintain the return to the Council, whilst retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates.
- 13.7 Regard will be given to the limits imposed by the treasury management policy, particularly the importance of maintaining the security of the monies invested.

Partnership risk

- 13.8 There are currently no major partnerships involving private borrowing. Some of the Council's costs are met by 'match funding' where other organisations match the funding that the Council contributes. Where this is the case there may be liquidity risk (see 13.5) if the other organisations do not make their contributions when agreed. Our exposure to this risk will be monitored via the revenue and capital budget monitoring processes.

Market risk

- 13.9 Our long term borrowing is mainly through fixed rate maturity loans, whilst our investments are at both fixed and variable rates. To mitigate the risk as far as possible the Council seeks to find the appropriate balance of investments between short and long term and between variable and fixed rate.

Refinancing risk

- 13.10 Our borrowing arrangements are negotiated, structured and documented, and the maturity profile of these monies are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable as can reasonably be achieved in the light of market conditions prevailing at the time.

Treasury Management Activity	Delegated to:	In their absence, delegated to:
Production of a Treasury Policy Statement each year for approval by the Council prior to the start of the financial year	Group Manager (Financial Planning & Control)	Financial Accountant (Capital & Treasury Management)
Staffing and organisation of the Treasury Management function	Group Manager (Financial Planning & Control)	Chief Finance Officer
Ensuring that all staff engaged in Treasury Management receive appropriate training	Group Manager (Financial Planning & Control)	Financial Accountant (Capital & Treasury Management)
Ensuring that all members with Treasury Management responsibilities receive appropriate training	Chief Finance Officer	Group Manager (Financial Planning & Control)
Advising the Council's Monitoring Officer when necessary	Chief Finance Officer	Deputy Section 151 Officer
Decisions on long term borrowing	Chief Finance Officer	Deputy Section 151 Officer
Decisions on the restructuring of the Council's debt	Chief Finance Officer	Deputy Section 151 Officer
Taking out new loans/repayment of loans with the PWLB	Group Manager (Financial Planning & Control)	Chief Finance Officer/ Deputy Section 151 Officer
Maintaining adequate and effective cash flow forecasting records to support the decision to lend or borrow	Designated Accounting Technician/Financial Accountant	Any other designated Accounting Technician/Financial Accountant

Treasury Management Activity	Delegated to:	In their absence, delegated to:
Proposals on placing overnight monies with the Council's bank or in short/long term investments	Financial Accountant (Capital & Treasury Management)	Designated Accounting Technician/Financial Accountant
Approval of short/long term investments	Chief Finance Officer	Deputy Section 151 Officer/Group Manager (Financial Planning & Control)
Placing money in investments once approval has been obtained	Financial Accountant (Capital & Treasury Management)/ other designated Finance Business Partner/ Senior Finance Business Partner	Group Manager (Financial Planning & Control)
Contact for correspondence with external fund managers	Financial Accountant (Capital & Treasury Management)	Other designated Accounting Technician/Finance Business Partner
Decisions on placing with or recalling monies from external fund managers	Chief Finance Officer	Deputy Section 151 Officer
Entering into lease agreements	Chief Finance Officer	Deputy Section 151 Officer
Key contact with the Council's treasury management advisers	Group Manager (Financial Planning & Control)	Financial Accountant (Capital & Treasury Management)
Monitoring of actual against budget for debt charges, interest earnings and debt management expenses	Designated Accounting Technician/Financial Accountant	Any other designated Accounting Technician/Financial Accountant
Monitoring of performance; average interest rates earned and paid etc.	Designated Accounting Technician/Financial Accountant	Any other designated Accounting Technician/Financial Accountant
Monthly report to Section 151 officer detailing performance and any non-compliance with the Treasury Management Policy	Financial Accountant (Capital & Treasury Management)	Designated Accounting Technician/Financial Accountant

SOUTHEND-ON-SEA BOROUGH COUNCIL
TREASURY MANAGEMENT STRATEGY 2017/18

1. Introduction

- 1.1 The Treasury Management Strategy is written in compliance with the CIPFA Treasury Management Code of Practice requirement to review and report policy and strategy before the start of the year. This has been revised following publication of the revised Code of Practice.
- 1.2 The Treasury Management Strategy sets out how the financing costs may be achieved. It needs to be regularly monitored and modified in the light of changing external and internal circumstances.
- 1.3 The objective of the strategy is to optimise the income generated by surplus cash and minimise borrowing costs, consistent with a low level of risk, maintaining capital sums and maintaining liquidity.

2. The Council's Budget

- 2.1 The budget includes provision for the financing costs of the Council's Capital Programme, including interest on external borrowings. Offsetting this, the Council will earn interest by temporarily investing its surplus cash, which includes unapplied and set-aside capital receipts. These budgets depend on many factors, not least the Council's level of revenue and capital budgets, use of reserves, methods of funding the budget requirement, interest rates, cash flow and the Council's view of risk.
- 2.2 The Council can be both a lender and borrower at the same time as it seeks to invest short-term surpluses and fund longer-term capital investment. The timing of the taking of borrowing is important to secure the most advantageous interest rates.
- 2.3 The net budget for financing costs and interest earned on balances will be finalised as part of the Council's approved budget for 2017/18.

3. The Council's Cash Surplus and Cash Flow

- 3.1 It is projected that surplus cash balances will average £85m (of which £35.5m is the estimated sum of medium and long term funds managed by external fund managers) during 2017/18 based on information currently available and historical spending patterns.

4. Interest Earnings (excluding property funds)

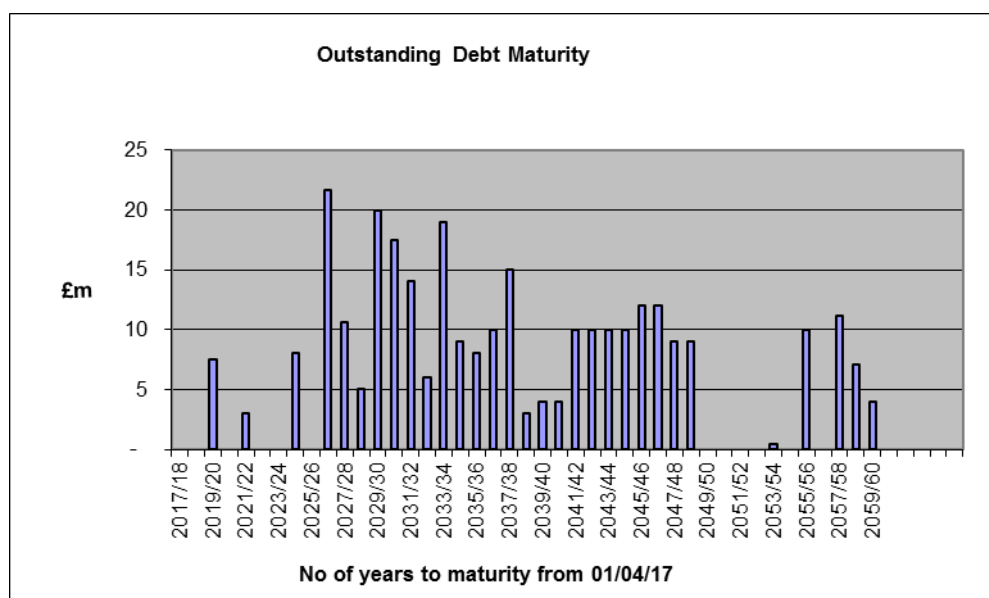
- 4.1 At the date of this report, the Bank of England base rate was 0.25%. Based on economic forecasts it is very difficult to predict the timing of any change in interest rates, however it has been assumed that during 2017/18 the bank base rate will remain the same at 0.25%. The average interest earned by the Council on its in-house lending is likely to be 0.40% but this does depend on market conditions.
- 4.2 Sensitivity analysis shows that a difference of 0.5% in interest rates would make a difference of £250k in external interest earned and a difference of £1m in average balances would make a difference of £4k in interest earned in a full year. This risk is reflected in the annual review of the robustness of estimates for the Council Budget undertaken by the Director of Finance and Resources.

5. Long Term Borrowing

- 5.1 There is no Central Government funding to support borrowing by the Council to fund capital projects. Under the Prudential Code the cost of any additional borrowing has to be financed by the Council.
- 5.2 The funding available to support capital investment is based on an assumption that the Council will undertake borrowing in 2017/18 of £21m, £5m of which relates to invest to save schemes. The revenue impact of this borrowing is funded in the Revenue Budget proposals. As an indicative guide to this revenue impact, there is a cost of approximately £70k for every £1m borrowed.
- 5.3 The Capital Financing Requirement (CFR) is the council's theoretical need to borrow but the Section 151 Officer can manage the council's actual borrowing position by either:
- 1 - borrowing to the CFR;
 - 2 - choosing to use temporary cash flow funds instead of borrowing (internal borrowing) or;
 - 3 - borrowing for future increases in the CFR (borrowing in advance of need)
- The Council is likely to begin 2017/18 in the second of the above scenarios. However, as the 2017/18 financial year progresses a combination of scenarios 1, 2 and 3 will be considered, as appropriate.
- 5.4 This authority will only borrow in advance of need where there is a clear justification for doing so and will only do so for the current capital programme or to finance future debt maturities.
- 5.5 So far in 2016/17 no new PWLB loans have been taken out.

- 5.6 At the meeting of Cabinet on 23rd June 2015 the LED Street Lighting and Illuminated Street Furniture Replacement Project was approved which was to be partly funded by 25 year reducing balance 'invest to save' finance from the Green Investment Bank (GIB). The balance outstanding at 31 December 2016 was £6.69m.
- 5.7 The Council's current outstanding loans for both General Fund and Housing Revenue Account, (estimated as at 31 March 2017) which will need to be repaid:
- | | |
|---|---------------|
| • Southend-on-Sea Borough Council –GF | £ 169m |
| - Main Schemes | £160m |
| - Invest to Save Schemes | £9m |
| • Southend-on-Sea Borough Council – HRA | £ 77m |
| | <u>£ 246m</u> |
| • ECC transferred debt | £ 12.5m |
- 5.8 New loans in 2017/2018 are estimated at:
- | | |
|---|-------|
| • Southend-on-Sea Borough Council – GF | £ 21m |
| - Main Schemes | £16m |
| - Invest to Save Schemes | £5m |
| • Southend-on-Sea Borough Council - HRA | £ 0m |
| • ECC transferred debt | £ 0m |
- 5.9 Repayments in 2017/2018 are estimated at:
- | | |
|---|--------|
| • Southend-on-Sea Borough Council - GF | £ 0.1m |
| - Main Schemes | £0m |
| - Invest to Save Schemes | £0.1m |
| • Southend-on-Sea Borough Council - HRA | £ 0m |
| • ECC transferred debt | £ 0.6m |
- 5.10 The Council's current outstanding loans for both General Fund and Housing Revenue Account, (estimated as at 31 March 2018) which will need to be repaid:
- | | |
|---|---------------|
| • Southend-on-Sea Borough Council - GF | £ 190m |
| - Main Schemes | £176m |
| - Invest to Save Schemes | £14m |
| • Southend-on-Sea Borough Council – HRA | £ 77m |
| | <u>£ 267m</u> |
| • ECC transferred debt | £ 11.9m |
- 5.11 Outstanding debt relating to services transferred from Essex County Council (ECC) on 1 April 1998, remains under the management of ECC. Southend Borough Council reimburses the debt costs incurred by the County.

- 5.12 The graph below shows the repayment profile of the Council's PWLB borrowings if all new loans are included to reflect the funding of the proposed capital programme and the refinancing of debt.



It shows the gaps in the repayment profile and that there is no one year where the loan maturities are excessive.

The next maturity date of any PWLB debt redemption is September 2019 and is for a sum of £7m (General Fund: £5m, Housing Revenue Account (HRA): £2m).

- 5.13 The potential for the early redemption of high interest loans is reviewed periodically, however the interest savings from the repayment of these loans is usually offset by the premiums that must be paid on their redemption and it has not yet been advantageous for the Council to discharge these loans prematurely. This followed advice from our treasury management advisers which demonstrated the excessive cost to the Council of any debt restructuring. Further advice from our treasury management advisers will be sought at the appropriate time about the potential for restructuring of debt and the timing of such a restructure.
- 5.14 Long term borrowing will normally be taken from the Public Works Loan Board (PWLB) since this is usually the most economic source available to the Council. If other sources are thought to be more advantageous and are permitted under the relevant legislation they will be considered.
- 5.15 As at 12 December 2016 rates of borrowing (from the PWLB) were between 2.87% and 2.92% for loans between 20 and 30 years (these rates exclude the certainty rate discount of 0.2%). During 2017/18 the investment and borrowing interest rates will be kept under review and the further use of capital balances will be considered in lieu of new borrowing where this is advantageous.

- 5.16 Where it is considered appropriate to take out new borrowing, regard will be given to the existing repayment profile (see 5.12 above) and the need for a spread of maturity dates to ensure that a significant value of loans do not mature at the same time. Loans are taken out for a range of periods in order that the Council continues to balance its debt profile over the longer term and so is not unduly exposed to the prevailing interest rates at the time of the possible debt replacement.

6. Monitoring and Review Arrangements

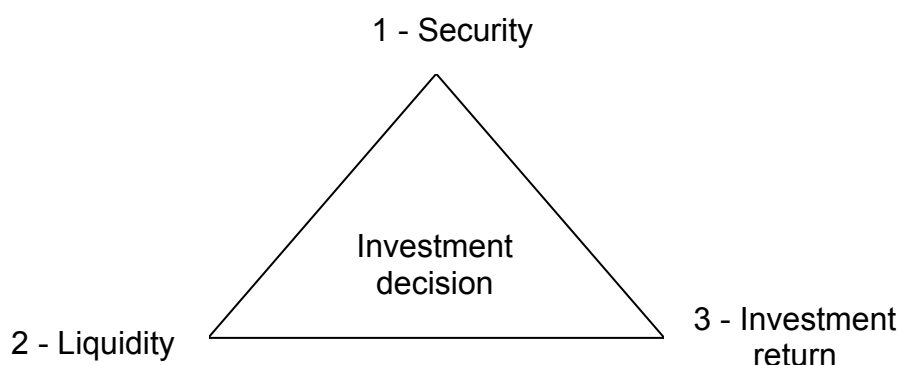
- 6.1 During 2017/18, within 7 working days of each month end, the Section 151 Officer will receive a report detailing performance and any non-compliance with the treasury management policy. He will either approve the report or raise the necessary queries to satisfy himself in relation to:
- (i) all transactions being properly authorised
 - (ii) all transactions being with approved counterparties
 - (iii) all transactions being in accordance with the Council's approved policy
 - (iv) monitoring of security and liquidity (i.e. spread of investments by long term credit rating, financial sector, country, maturity profile)
 - (v) in-house investment performance against 7 day LIBID
 - (vi) investment performance for external fund managers for the relevant period
- 6.2 In addition to the monthly reports:
- (i) monitoring reports will be included in the regular Performance Monitoring report
 - (ii) any changes affecting the treasury management strategy will be reported to Audit Committee for scrutiny and Cabinet for recommending to Council for approval.
- 6.3 Benchmarking that considers security and liquidity will be achieved by appropriate comparisons with relevant statistical data.

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SOUTHEND-ON-SEA BOROUGH COUNCIL
ANNUAL INVESTMENT STRATEGY 2017/18

1 Investment Objectives

- 1.1 To secure the principal sums invested
- 1.2 To maintain liquidity (i.e. adequate cash resources)
- 1.3 To optimise the income generated by surplus cash in a way that is consistent with a prudent level of risk
- 1.4 Security and liquidity are placed ahead of the investment return. This is shown in the diagram below:



2 Policy on use of external fund managers

- 2.1 The Council currently has monies placed with five external fund managers to use their knowledge and experience to invest on our behalf the medium and long term funds that are, under normal circumstances, not required for day to day cash flow purposes. These funds are summarised below:

Type of fund	Fund manager	Estimated average balance in 2017/18 (£m)
Property Fund	Lothbury Investment Management Limited	8.0
Property Fund	Rockspring Property Investment Management Limited	7.5
Short Dated Bond Fund	AXA Sterling Credit Short Duration Bond Fund	7.5
Short Dated Bond Fund	Royal London Investment Grade Short Dated Credit Fund	7.5

Enhanced Cash Fund	Payden & Rygel's Sterling Reserve Fund	5.0
Total		35.5

- 2.2 Withdrawals may be made during 2017/18 so that a proportion of the council's debt can be repaid or the monies invested as part of the in-house managed funds. Conversely, monies may be placed with the existing and/or a new fund manager during 2017/18 to take full advantage of the knowledge and experience of fund managers in making investment decisions. As to whether monies are deposited or withdrawn, the reason and timing of the decision will have regard to the council's cash flow, relevant interest rates and advice from our treasury management advisers.
- 2.3 In consultation with our treasury management advisers and if appropriate the Section 151 officer will appoint one or more new fund managers in 2017/18 to enable investment of monies.
- 2.4 During 2017/18, if appropriate, the Section 151 officer will approve the placing of monies in Property Funds and will approve the direct investment in property. Any resulting updates to the capital programme would be submitted to Cabinet for approval.
- 2.5 During 2017/18, if appropriate, the Section 151 officer will approve the placing of monies in Short Dated Bond Funds or Enhanced Cash Funds.

3 Policy on investment of in-house managed funds

- 3.1 The remaining funds will be managed in-house with the investment period and amounts being determined by the daily cash flow requirements of the Council. Cash flow forecasts will be produced in order to inform in-house investment decisions.
- 3.2 This authority has accepted the risk of placing funds with financial institutions, rather than solely with the UK government Debt Management Office. However, the risk is minimised by this Annual Investment Strategy, which restricts the types of investment, the counterparties used and the limits for these counterparties.
- 3.3 Guidance from the Communities and Local Government (CLG) department recommends that specified and non-specified investments are identified in the Investment Strategies of local authorities. Specified investments have relatively high security and liquidity, with high credit quality and a maturity of no more than a year. Non-specified investments are investments that do not fall into this category. The types of investment in this strategy and whether they are specified or non-specified are set out in Annex A.
- 3.4 During 2017/18 the Section 151 officer will, if appropriate, approve the placing of monies in deposit accounts, fixed term deposits or certificates of sterling cash deposits up to five years, subject to the proposed banks and building societies satisfying the investment criteria in a combined matrix of

credit ratings, and having regard to other market information available at the time.

- 3.5 During 2017/18 the Section 151 officer will, if appropriate, approve the placing of monies in Money Market Funds, term repurchase arrangements, Treasury bills, with other Local Authorities or the Debt Management Office.
- 3.6 During 2017/18 the Section 151 officer will, if appropriate, approve the investment of monies into Development Companies (either partly or wholly owned by the Council) focused on regeneration and other infrastructure related projects, subject to the necessary due diligence being satisfactorily completed and in consultation with our treasury management advisers. The provision of loan facilities to such companies would count as capital investment in the company and any resulting updates to the capital programme would be submitted to Cabinet for approval.
- 3.7 Where credit ratings are used to assess credit risk, they will be checked when an investment is taken out to ensure that investment satisfies the criteria in this Investment Strategy. Our treasury management advisers provide alerts when credit ratings are changed by the three main rating agencies. If the credit ratings of an institution or investment no longer satisfy the criteria the monies will be withdrawn as soon as possible. This would depend on the maturity date or notice period.
- 3.8 During 2017/18 the Section 151 officer will, if appropriate, approve the short term borrowing of monies from other Local Authorities or the PWLB in order to manage the cash flow and maintain liquidity.
- 3.9 Fixed term deposits may be made directly with the banks and building societies or through the use of a broker. Monies will be placed with other Local Authorities through the use of a broker. Investments in Certificates of Deposit and Treasury bills will be made through the use of a custodian account. The Council acknowledges that it retains responsibility for all investment decisions made whether they are made on its behalf or not.
- 3.10 When investing in-house managed funds, the following are considered; the type of investment, the individual counterparty, the amount that can be invested, the method of placement of monies. These are summarised in Annex A.
- 3.11 The services of our treasury management adviser, Capita Asset Services, will be used throughout 2017/18 to provide advice as well as credit rating and other market information regarding counterparties and types of investment. However, the Council recognises that responsibility for investment decisions remains with the authority at all times.

4 Investment Criteria for Funds Managed In-house

4.1 All financial institutions considered for investment will be assessed for credit worthiness against a combined matrix of pre determined criteria using available credit ratings. Credit ratings are assessments by professional organisations of an entity's ability to punctually service and repay debt obligations. Credit ratings are used by investors as indications of the likelihood of getting their money back in accordance with the terms on which they invested.

4.2 The credit rating components used in the matrices comprise:

- Short term ratings;
- Long term ratings.

Ratings provided by all three credit rating agencies will be consulted and a counterparty will be considered for investment if it meets the ratings criteria of at least one of the agencies.

4.3 The short term rating covers obligations which have an original maturity not exceeding one year. The short-term rating places greater emphasis on the liquidity necessary to meet financial commitments. All three credit rating agencies provide short term ratings. The ratings are expressed from F1+ (highest credit rating) through to D (highest default risk) for Fitch, from A-1+ (highest credit rating) through to D (highest default risk) for Standard and Poors, and from P-1 (highest credit rating) through to NP (highest default risk) for Moody's.

4.4 The long term ratings generally cover periods in excess of one year. Due to the larger time horizon over which the rating is determined, the emphasis shifts to the assessment of the ongoing stability of the institution's prospective financial condition. All three credit rating agencies provide long term ratings. The ratings are expressed from AAA (highest credit rating) through to D (highest default risk) for Fitch and Standard and Poors and from AAA (highest credit rating) through to C (highest default risk) for Moody's.

4.5 In order to balance the objective of securing the maximum level of return on investments with a prudent level of risk a matrix of criteria will be adopted as a starting point to determine the acceptability of a potential investment.

4.6 These matrices are set out below:

If the short and long term ratings meet the following criteria from a minimum of one of the ratings agencies:

For Lending of up to 6 months to Banks and Building societies:

	Fitch	S&P	Moody's
Short term rating minimum	F1	A-1	P-1
Long term rating minimum	A-	A-	A3

For Lending of up to 12 months to Banks and Building societies:

	Fitch	S&P	Moody's
Short term rating minimum	F1	A-1	P-1
Long term rating minimum	A	A	A2

For Lending of up to 3 years to Banks and Building societies:

	Fitch	S&P	Moody's
Short term rating minimum	F1	A-1	P-1
Long term rating minimum	AA-	AA-	Aa3

For Lending of up to 5 years to Banks and Building societies:

	Fitch	S&P	Moody's
Short term rating minimum	F1+	A-1+	P-1
Long term rating minimum	AA+	AA+	Aa1

4.7 An example of the use of this credit ratings matrix as at 12 December 2016 is shown below (the long and short term ratings are Fitch, then Standard and Poors, then Moody's).

Financial Institution	Long Term Rating	Short Term Rating	Maximum length of investment
The Bank of New York Mellon	AA AA- Aa1	F1+ A-1+ P-1	5 years
Royal Bank of Canada	AA AA- Aa3	F1+ A-1+ P-1	3 years
Lloyds Bank Plc	A+ A A1	F1 A-1 P-1	12 months
National Westminster Bank Plc	BBB+ BBB+ A3	F2 A-2 P-2	Initially fails investment criteria

- 4.8 The Council's treasury management advisers, Capita Asset Services, will continually review the appropriateness of our investment criteria and continue to develop a best practise counterparty list. The latest advice has now been incorporated in this Strategy, which is set out below.
- 4.9 The individual ratings for some banks and building societies are low which means that they do not meet the criteria in our credit ratings matrix. However, this does not take account of part nationalised banks (currently The Royal Bank of Scotland Plc and National Westminster Bank Plc). These banks can be included in the counterparty list if they continue to be part nationalised or they meet the criteria of our credit ratings matrix or the criteria in paragraph 4.10. An example of the institutions meeting the criteria for the UK will therefore include:
- Bank of Scotland Plc
 - Lloyds Bank Plc
 - The Royal Bank of Scotland Plc
 - National Westminster Bank Plc
 - Barclays Bank Plc
 - HSBC Bank Plc
 - Nationwide Building Society
 - Santander UK Plc

For example, National Westminster Bank Plc fails the investment criteria of the credit ratings matrix but is a part nationalised bank and would therefore be added back to the counterparty list. Counterparties that are manually added back to the list will have a maximum length of investment of two years. Amendments to the counterparty list can happen at any point in time.

- 4.10 In addition, for practical purposes the Council's bank will form part of the counterparty list, whether or not it meets the criteria in our credit ratings matrix.
- 4.11 Regard will be given to forward looking rating warnings from the three main credit rating agencies (i.e. rating watches and outlooks) provided by our treasury management advisers.
- 4.12 The current advice from the Audit Commission is not to rely solely on the credit rating agencies and the Council recognises that ratings should not be the sole determinant of the quality of an institution. So regard will also be given to market information such as the financial press, and officers will engage with their advisers to maintain a monitor on market pricing (such as share and 'credit default swap' prices) and other such information pertaining to the banking sector. Where available credit information, other than credit ratings has been used, this will be documented when the investment decision is made.
- 4.13 Consideration will also be given to Capita Asset Services' rating methodology approach, where counterparties are put into bands of risk. These reflect the differences in credit quality of suggested duration and counterparties are assigned a risk number/colour.

- 4.14 The achievement of an appropriate balance between short-term and longer-term deposits will be driven by the credit quality of counterparties, the council's cash flow requirements, and the need to achieve optimum performance from our investments consistent with effective management of risk.

5 Investment Limits for Funds Managed In-house

- 5.1 The ratings agencies produce a credit rating for each country, called a sovereign rating. The ratings are expressed from AAA (highest) to D (lowest). The following limits have been set for an investment with a bank or building society whose parent company is registered in a country with a sovereign rating from Fitch and Standard and Poors (S&P) of AAA or AA+ or a sovereign rating from Moody's of Aaa or Aa1. Sovereign ratings provided by all three credit rating agencies will be consulted and the lowest rating will be taken.

Country Sovereign Rating	Limit * All except UK (£ million)
AAA/Aaa	20
AA+/Aa1	5
Lower than AA+/Aa1	0

* These limits relate to the principal sums invested and do not include any accrued interest on that principal.

- 5.2 These limits will also apply to supranationals (international organisations whereby member states transcend national boundaries or interests to share in the decision-making and vote on issues pertaining to the wider grouping). An example of a supranational is the European Investment Bank.
- 5.3 Fitch and S&P have set the UK's sovereign rating at AA and Moodys have set it at AA1. Therefore, to ensure the continued use of UK institutions that fall within our investment criteria, the country sovereign rating limits exclude the UK. The limit will therefore remain at £20 million for all counterparties where the parent company is registered in the UK.
- 5.4 Where the parent company of a bank is not registered in a country with a sovereign rating from Fitch and S&P of AAA or AA+ or a sovereign rating from Moody's of Aaa or Aa1 but that bank's UK operations are ring-fenced to the UK (as is the case for Santander UK), if these banks are included in the counterparty list they will have a counterparty limit of £20 million.
- 5.5 £20 million is just over 5% of the authority's estimated 2016/2017 gross revenue expenditure of £390m. £5m is just over 1% of the estimated gross revenue expenditure.
- 5.6 To minimise counterparty risk, the limit on any investment with a bank or building society (with the exception of the Council's bank which is currently Barclays Bank) will be determined in the following way:

- consider the country in which the parent company of the bank or building society is registered
- use the sovereign rating of that country to apply the limits above
- consider the cumulative balance of funds already held in various investment products with that bank or building society
- consider the cumulative balance of funds already held in various investment products for any related group of financial institutions
- determine the remaining amount that can be placed with that bank or building society

For example, the limit on an investment with Lloyds Bank Plc would be determined in the following way:

Steps to determine limit: <i>(for illustrative purposes only and not an indication of actual investments)</i>	Remaining limit available at each stage:
Lloyds Bank Plc is part of the Lloyds Banking Group which is registered in the UK	£20 million
£4 million already placed in an instant access account with Lloyds Bank Plc	£16 million
£5 million already placed in a fixed term deposit with Lloyds Bank Plc	£11 million
£6 million already placed in a notice account with Bank of Scotland Plc (part of the Lloyds Banking Group)	£5 million
Therefore the maximum investment would be £5 million	

- 5.7 The Council's bank is the exception to these investment limits however, and under normal circumstances our intention would be to comply with a counterparty limit of £30 million, to enable the efficient and effective management of the Council's cashflow.
- 5.8 The limit on deposits in Money Market Funds will be £20 million with any one AAAM rated (or equivalent) liquidity fund. These work in the same way as a deposit account but the money in the overall fund is invested in a number of counterparties, therefore spreading the counterparty risk.
- 5.9 There are products being developed that are similar to, but not the same as Money Market Funds, such as 'term repurchase arrangements'. The risk associated with these funds is somewhere between a fixed term deposit and a Money Market Fund. The Section 151 officer will approve the placing of monies in these types of fund up to a maximum of £20 million per fund, if deemed appropriate and in consultation with our treasury management advisers.
- 5.10 Given the prevailing financial market conditions, financial institutions will inevitably devise various investment products to offer enhanced returns. The Council's Section 151 Officer will consider these in consultation with our treasury management advisers and will approve the placing of monies

in such investment products with appropriate limits, only after the options and their associated risks have been fully analysed by the treasury management team and our treasury management advisers.

- 5.11 To maximise flexibility, there is no limit on deposits with the UK Government (e.g. Debt Management Office, HM Treasury bills). These deposits will have a maximum duration of 6 months.
- 5.12 The limit on deposits with other Local Authorities will be £40 million which is just over 10% of the authority's estimated 2016/2017 gross revenue expenditure of £390m. These deposits will have a maximum duration of 5 years.

6 Fund Managers investment criteria

- 6.1 Investments undertaken by external fund managers on behalf of the Council can only be placed in certain types of investment as permitted under the Local Government Act. The types of investment, counterparties and limits used by each fund manager are set out in their Investment Management Agreement.
- 6.2 The Council's Section 151 Officer is authorised to amend these Investment Management Agreements as appropriate to reflect the needs of the Council, after fully considering the options and their associated risk and in consultation with the Council's treasury management advisers. Subject to the relevant due diligence being undertaken, the Investment Management Agreements could include investment in asset classes such as gilts, corporate bonds, property or equities, or investment in a mixed asset fund.
- 6.3 The limit on deposits in Property Funds will be £20 million with any one fund that passes the selection process.
- 6.4 The limit on deposits in Short Dated Bond Funds will be £20 million with any one fund that passes the selection process.
- 6.5 The limit on deposits in Enhanced Cash Funds will be £20 million with any one fund that passes the selection process.

Type of Investment	Individual Counterparty	Limit	Method of placement	Specified/non-specified
Deposit accounts	Bank or building society that meets the criteria of our combined matrix of credit ratings, or one of the part nationalised banks	Per bank or building society, based on country sovereign rating	Directly or through a broker	Specified (if 1 year or less), Non-specified (if more than 1 year)
Fixed term deposits			Directly or through a broker	
Certificates of sterling cash deposits			Custodian account	
Money Market Funds	AAAm rated* (or equivalent) liquidity fund	Per fund	Directly or via an on-line site for managing money market funds	Specified
Property Funds	Via selection process	Per fund	Directly or through a broker	Non-specified (more than 1 year)
Short Dated Bond Funds	Via selection process	Per fund	Directly	Non-specified (more than 1 year)
Enhanced Cash Funds	Via selection process	Per fund	Directly	Non-specified (more than 1 year)
Term repurchase arrangements	AAAf/S1 rated [#]	Per fund	Directly	Specified (if 1 year or less), Non-specified (if more than 1 year)
Other Local Authorities	Depends on which Local Authorities want to borrow money at that time	For total invested with other Local Authorities	Through a broker	Specified (if 1 year or less), Non-specified (if more than 1 year)
Debt Management Office	UK Government	For total invested with UK Government	Directly	Specified
Treasury Bills			Custodian account	

* A fund with a principal stability rating of 'AAAm' (or equivalent) has an extremely strong capacity to maintain stability and to limit exposure to losses of the principal sums invested due to credit, market and/or liquidity risks.

[#] A fund with a credit quality rating of 'AAAf' has a portfolio holding that provides extremely strong protection against losses from credit defaults. A fund with a volatility rating of S1 possesses low sensitivity to changing market conditions.

This table is subject to change as new products are added as deemed appropriate – see paragraph 5.9.

SOUTHEND-ON-SEA BOROUGH COUNCIL

CHANGES FROM THE REVISED 2016/17 TREASURY MANAGEMENT POLICY

Appendix	Paragraph	Change	Reason for the change
1	7.4	A new paragraph to allow the Section 151 Officer to borrow for the purposes of financing regeneration and other infrastructure related projects.	To provide greater flexibility of the strategy.
2	5.10 in 2016/17	<p>The following paragraph has been removed as it is not applicable to 2017/18:</p> <p><i>Recalculation of borrowing pools following transfer of assets financed by borrowing from HRA to GF:</i></p> <ul style="list-style-type: none"> • Southend-on-Sea Borough Council - GF £ 1m • Southend-on-Sea Borough Council - HRA £ (1)m 	Paragraph not applicable to 2017/18
3	2.1	The paragraph has been amended to reflect the use of new fund managers, with a table added to summarise the type of fund, fund manager and estimated average balance in 2017/18.	To reflect changes in external fund managers
3	2.5	A new paragraph to allow the Section 151 Officer to place monies in Short Dated Bond Funds or Enhanced Cash Funds to take full advantage of the knowledge and experience of fund managers.	To provide greater flexibility of the strategy
3	3.6	A new paragraph to allow the Section 151 Officer to provide loan facilities to Development Companies focused on regeneration and other infrastructure related projects, as appropriate and following the necessary due diligence being satisfactorily completed.	To provide greater flexibility of the strategy.

Appendix	Paragraph	Change	Reason for the change
3	6.4	A new paragraph to specify the limit on deposits into Short Dated Bond Funds.	To reflect changes in external fund managers
3	6.5	A new paragraph to specify the limit on deposits into Enhanced Cash Funds.	To reflect changes in external fund managers
3	Annex A	New lines added to include Short Dated Bond funds and Enhanced Cash funds.	To reflect changes in external fund managers

**Report of the Chief Executive
to
Audit Committee
on
21 January 2017**

Report prepared by: BDO External Auditor

BDO: Progress Report to Those Charged with Governance

Executive Councillor – Councillor Moring

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To report on progress in delivering the 2015/16 and 2016/17 Annual Audit Plan's.

2. Recommendation

- 2.1 The Committee accepts progress made in delivering the Annual Audit Plan's for 2015/16 and 2016/17.**

3. Background

- 3.1 A senior representative of BDO (the appointed External Auditor to the Council) will present the key matters from this report to the Audit Committee and then respond to Members' questions.

4. Corporate Implications

- 4.1 Contribution to Council's Aims and Priorities

Audit work contributes to the delivery of all corporate Aims and Priorities.

- 4.2 Financial Implications

This audit work will be delivered within the agreed audit fee for 2015/16 and 2016/17.

- 4.3 Legal Implications

The Council is required to have an external audit of its activities that complies with the requirements of the Code of Audit Practice (the Code) issued by the National Audit Office. By considering this report, the Committee can satisfy itself that this requirement is being discharged.

- 4.4 People and Property Implications

None

4.5 Consultation

The planned audit work has been discussed and agreed with the Director of Finance and Resources.

4.6 Equalities Impact Assessment

None

4.7 Risk Assessment

Periodically considering whether the external auditor is delivering the agreed Annual Audit Plan helps mitigate the risk that the Council does not receive an external audit service that complies with the requirement of the Code of Audit Practice.

4.8 Value for Money

Public Sector Audit Appointments Limited sets the fee formula for determining external audit fees for all external auditors.

4.9 Community Safety Implications and Environmental Impact

None

5. Background Papers

None

6. Attachment: BDO's Progress Report to Those Charged with Governance

SOUTHEND-ON-SEA BOROUGH COUNCIL

Progress report to those charged with governance

January 2017



INTRODUCTION

Summary of progress

This report provides the Audit Committee with an update of the progress in delivering the 2015/16 and the 2016/17 audit.

Auditors' principal objectives are to review and report on, to the extent required by the relevant legislation and the requirements of the Code of Audit Practice for Local Government, the audited body's:

- financial statements
- arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are also required to certify specified grant claims and returns.

2015/16 Annual Audit Plan - progress summary as at 5 January 2017

Area of work	Scope / Associated deadlines	Status	Outputs / Date
Planning	Risk assessment and formulation of the audit plan. Detailed audit plan to be issued outlining direction of the audit.	First phase of work completed.	Planning Letter 2015/16 Reported to the Audit Committee in June 2015. Audit Plan 2015/16 Reported to the March 2016 Audit Committee.
Interim audit	Audit of the key financial systems that support the financial statements of accounts. To be completed prior to commencement of the audit of the financial statements in July 2016.	Work is complete.	We report to management any deficiencies in internal control identified during the audit. Where such deficiencies are significant we also report them in our Final Report to the Audit Committee .
Financial Statements audit	Audit of the draft financial statements to determine whether they give a true and fair view of the Council's financial affairs and the income and expenditure for the year. Deadline for issue of audit opinion and publication of the statement of accounts is 30 September 2016.	Work is complete.	Final Report to the Audit Committee Reported to the Audit Committee on the 21 September 2016. Opinion on the financial statements Opinion issued on 30 September 2016.
Whole of government accounts audit	Audit of the consolidation pack for consistency with the audited statement of accounts. Consolidation pack opinion –there was a delay in HM treasury in issuing the Data collection tool as a result the deadline was extended to the 21 October 2016.	Work is complete.	Opinion on the WGA Consolidation Pack Opinion issued on the 21 October 2016.
Use of resources	New approach for VFM Conclusion: One criteria:	Work is complete.	Final Report to the Audit Committee Reported to the Audit Committee on the 21

Area of work	Scope / Associated deadlines	Status	Outputs / Date
	<p>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.</p> <p>The overall criterion is supported by three sub-criteria:</p> <ul style="list-style-type: none"> • Informed decision making • Sustainable resource deployment • Working with partners and other third parties <p>Conclusion to be given alongside the accounts opinion by the deadline of 30 September 2016.</p>		<p>September 2016.</p> <p>VFM conclusion</p> <p>Opinion issued 30 September 2016.</p>
Annual Audit Letter	Public-facing summary of audit work and key conclusions for the year. To be finalised by 31 October 2016.	Final report agreed.	<p>Annual Audit Letter</p> <p>Issued by the 31 October deadline. Being reported to the Audit Committee on 18 January 2016.</p>
Grants and returns	To audit and submit BEN 01 (Housing Benefit) grant claim and returns by 30 November 2016 deadline.	Work is complete	Housing Benefit grants claim certified in line with the deadline.
Non Audit Commission grants and returns	<p>To audit and submit Teachers' Pension and the Housing Pooled Capital Receipts grant claims and returns by the deadline.</p> <p>Teachers' Pensions: Deadline to issue reasonable assurance report is 30 November 2016.</p> <p>Housing Pooled Capital Receipts: Deadline 30 November 2016.</p>	<p>The Housing Pooled Capital Receipts return was certified in line with the deadline.</p> <p>The audit of the Teachers' Pension claim is in progress. This is as a result of issues with reconciling the claim form to the Agresso system.</p> <p>This is expected to be completed before the Audit Committee.</p>	<p>Teachers' Pension grants claim and return to be audited by the 30 November 2016 deadline.</p> <p>Housing Pooled Capital Receipts grants claim and return certified in line with the deadline.</p>
Grants Report	Summary of our certification work completed on 31 March 2016 claims, to be issued by February 2017.	Report to be drafted after completion of the Teachers' Pensions grant claim.	Grants Report to those charged with governance to be issued by February 2017.

2016/17 Annual Audit Plan - progress summary as at 5 January 2017

Area of work	Scope / Associated deadlines	Status	Outputs / Date
Planning	Risk assessment and formulation of the audit plan. Detailed audit plan to be issued outlining direction of the audit.	First phase of work completed.	Planning Letter 2016/17 Reported to the Audit Committee in June 2016. Audit Plan 2016/17 Target issue date March 2017.
Interim audit	Audit of the key financial systems that support the financial statements of accounts. To be completed prior to commencement of the audit of the financial statements in July 2017.	Start date agreed.	We report to management any deficiencies in internal control identified during the audit. Where such deficiencies are significant we also report them in our Final Report to the Audit Committee .
Financial Statements audit	Audit of the draft financial statements to determine whether they give a true and fair view of the Council's financial affairs and the income and expenditure for the year. Deadline for issue of audit opinion and publication of the statement of accounts is 30 September 2017.	Start date agreed.	Final Report to the Audit Committee Target issue date August 2017. Opinion on the financial statements Target issue date August 2017.
Whole of government accounts audit	Audit of the consolidation pack for consistency with the audited statement of accounts. Consolidation pack opinion – deadline not yet finalised – expected to be early October 2017.	Start date to be agreed.	Opinion on the WGA Consolidation Pack Target date October 2017.
Use of resources	New approach for VFM Conclusion: One criteria: In all significant respects, the audited body had	Start date to be agreed.	Final Report to the Audit Committee Target issue date August 2017. VFM conclusion

Area of work	Scope / Associated deadlines	Status	Outputs / Date
	<p>proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.</p> <p>The overall criterion is supported by three sub-criteria:</p> <ul style="list-style-type: none"> • Informed decision making • Sustainable resource deployment • Working with partners and other third parties <p>Conclusion to be given alongside the accounts opinion by the deadline of 30 September 2017.</p>		Target issue date August 2017.
Annual Audit Letter	Public-facing summary of audit work and key conclusions for the year. To be finalised by 31 October 2017.	This will follow completion of the Audit.	Annual Audit Letter Target issue date October 2017.
Grants and returns	To audit and submit BEN 01 (Housing Benefit) grant claim and returns by 30 November 2017 deadline.	Start date to be agreed.	Housing Benefit grants claim and return to be audited by 30 November 2017 deadline.
Non Audit Commission grants and returns	<p>To audit and submit Teachers' Pension and the Housing Pooled Capital Receipts grant claims and returns by the deadline.</p> <p>Teachers' Pensions: Deadline to issue reasonable assurance report is 30 November 2017.</p> <p>Housing Pooled Capital Receipts: Deadline TBC.</p>	Start date to be agreed.	<p>Teachers' Pension grants claim and return to be audited by the 30 November 2017 deadline.</p> <p>Housing Pooled Capital Receipts grants claim and return to be audited by the deadline.</p>
Grants Report	Summary of our certification work completed on 31 March 2017 claims, to be issued by February 2018.	To be drafted after certification work concluded.	Grants Report to those charged with governance to be issued by February 2018.

Appendix A: Action Plan

Summary of progress with implementing audit recommendations

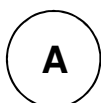
This report is intended to provide the Audit Committee with an update of the progress that the Council has made in implementing our recommendations.

We have received an update on progress from management and assessed whether the action taken by the Council addresses the expectations of the recommendation. This is included as a “RAG” assessment in the report with the following definitions:



NC&O

Not completed and
overdue



NCNYD

Not yet completed, but
not yet due



CNYC

Reported as
completed, but not yet
checked



CCIP

Completed and
confirmed in place

2012/13 GRANTS RECOMMENDATIONS

Conclusions from work	Recommendations 2012/13	Management responses	Responsibility	Timing	Latest management update	RAG status
HOUSING AND COUNCIL TAX BENEFIT SUBSIDY						
A number of errors were identified during our testing on the input of income and the classification of overpayments.	Carry out regular checking of a number of claims to ensure that: <ul style="list-style-type: none"> Income has been input correctly. Overpayments have been correctly classified. 	Additional resource introduced on checking claims 5 days a week to support quality assurance team and increase the volumes checked Team leaders to check high value Admin Delay overpayments to check correctly classified. To be reviewed regularly by Asst. Benefit Manager.	Asst Benefit Managers Team Leaders & Asst Benefit Manager	Implemented January 2014 Implemented January 2014	January 2016: Checking continues to be carried out on earned income as this remains an area with a high potential for errors to occur. June 2016: Complete and on-going January 2016: High value Admin delay overpayments continue to be checked. Management are discussing ways that checking on this area can be made more effective June 2016: Complete and on-going December 2016: New Quality & Assurance Team undertaking significant sampling in all areas and advising training needs where required.	<div> G CCIP¹ </div> <div> G CCIP² </div>

¹ Reduced number of errors in respect of earned income in qualification letter – satisfied implemented this part of recommendation.

² We are satisfied that checks are in place however a number of errors were identified during the audit of the 2015/16 claim form. As a result management are revisiting this process. This recommendation will therefore remain.

2014/15 AUDIT RECOMMENDATIONS

Conclusions from work	Recommendations	Management responses	Responsibility	Timing	Latest management update	RAG status
CONTROL ENVIRONMENT						
<p>Payroll Amendments</p> <p>This point was previously reported by Internal Audit:</p> <p>Evidence to support amendments to the Payroll system (including starters, leavers and amendments to staff records) could not be found for a number of amendments during testing completed by Internal Audit.</p>	<p>Fully implement the recommendations raised by Internal Audit in their final payroll report.</p>	<p>Agreed</p> <p>Anticipated all recommendations will be fully implemented by December 2015</p>	<p>Sue Putt (Group Manager HR Services)</p>	<p>December 2015</p>	<p>January 2016: Amendment log in place. Actions in relation to this recommendation are completed as of December 2015.</p> <p>June 2016: Completed December 2015</p> <p>September 2016: The Council have been working on this throughout the year and are still working towards a resolution to the issues raised.</p> <p>December 2016: Manual processes are in place to do monthly checks for staff changes affecting payroll. The functionality of the Agresso system does not allow for this to be done electronically. Internal Audit updated and are aware of restrictions and aware of manual process in place. Self Service on Agresso has been introduced and therefore staff can enter direct into the system changes to their own personal details such as address, bank details etc. Therefore these types of changes are no longer undertaken by Payroll.</p>	<p>Y</p> <p>CNYC</p>

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2015/16 AUDIT RECOMMENDATIONS

Conclusions from work	Recommendations	Management responses	Responsibility	Timing	Latest management update	RAG status
FINANCIAL STATEMENTS						
VAT on South Essex Homes Our testing identified that the accounting transactions were being posted incorrectly in respect of some of the rental income with South Essex Homes. This was due to the net income being invoiced rather than separate invoices being raised for gross income and expenditure. The effect of this is that income, expenditure and VAT reclaimable were all understated. This was trivial to the accounts.	Raise separate invoices for income and expenditure going forward.	This approach was adopted by management as soon as the issue was raised.	Ian Ambrose (Group Manager – Financial Management)	Already implemented	December 2016: New process put into place as soon as raised by External Auditors.	<div>Y</div> CNYC
Posting of Re-valuation Amounts We identified that the impairment recorded on an asset re-valued during the year was recorded in the CIES when it should have been posted to the re-valuation reserve as there was an opening balance in the re-valuation reserve in respect of this asset. The amounts involved were trivial in this instance, but there is a risk that the impairments taken to the CIES could be materially overstated if a number of similar errors were to occur.	Perform a high level review of the re-valuations to ensure impairments are only taken to the CIES in respect of assets where there was no opening balance in the re-valuation reserve.	As part of the 5 year rolling programme, all HRA property assets were revalued in 2015/16 including over 6,000 council dwellings with a net book value of £325m. Due to the large volumes involved the revaluations could not be applied manually line by line but had to be applied with the use of a formula. This was sample checked to ensure that it had been applied correctly but had led to £186.81 for one asset being recorded in the CIES when it should have been posted to the revaluation reserve. In other years there are fewer assets re-valued and	Caroline Fozzard (Group Manager – Financial Planning and Control)	March 2017	December 2016: This review will be undertaken as part of the 2016/17 revaluations work as part of closing the accounts.	<div>A</div> NCNYD

SOUTHEND-ON-SEA BOROUGH COUNCIL

Conclusions from work	Recommendations	Management responses	Responsibility	Timing	Latest management update	RAG status
		revaluations are applied manually line by line. It will be ensured that this review is undertaken in future years.				
Consolidation of Schools Income The Council consolidates all income privately generated by the schools and the Southend Adult College into their CIES. We identified that some of the income given to the schools had been consolidated into the Council's accounts and some things that should have been consolidated had been excluded. The amounts involved this year were not material. There is however a risk that income could be materially under or overstated as a result of this error if it were to occur again in future years.	Provide the schools and colleges guidance on what should be consolidated so that the returns provided include all of the relevant information to include in the Council's accounts.	This guidance will be produced and sent to the schools and colleges when the requests for the income declarations are made.	Ian Ambrose (Group Manager – Financial Management)	March 2017	December 2016: Progressing for due date of March 2017.	<div style="text-align: center;"> <div style="border: 1px solid black; border-radius: 50%; width: 40px; height: 40px; margin: 0 auto; display: flex; align-items: center; justify-content: center;"> A </div> NCNYD </div>
Bad debt provision The bad debt provision has been calculated based upon the same percentages as in the prior year. These percentages have been an accurate reflection of recovery rates in previous years, but this is no longer the case.	Review the calculation of the bad debt provision based upon the historical collection rates.	Management will review the bad debt provision calculation for the 2016/17 statement of accounts and on-going.	Ian Ambrose (Group Manager – Financial Management)	March 2017	December 2016: To be reviewed as part of the 2016/17 closure of accounts.	<div style="text-align: center;"> <div style="border: 1px solid black; border-radius: 50%; width: 40px; height: 40px; margin: 0 auto; display: flex; align-items: center; justify-content: center;"> A </div> NCNYD </div>
CONTROL ENVIRONMENT						
Payroll Authorisation The Council identified that one employee was erroneously paid £363k (£627k gross) in April 2015. The Council's controls failed to	Undertake a thorough review process on all payroll transactions before payment is made.	Controls to prevent this happening are already in place. It will be ensured that the controls are operating effectively going forward.	Sue Putt (Group Manager - HR Services)	On-going	December 2016: Work has been undertaken to improve the controls. Deviance reports are run at	<div style="text-align: center;"> <div style="border: 1px solid black; border-radius: 50%; width: 40px; height: 40px; margin: 0 auto; display: flex; align-items: center; justify-content: center;"> Y </div> CNYC </div>

SOUTHEND-ON-SEA BOROUGH COUNCIL

Conclusions from work	Recommendations	Management responses	Responsibility	Timing	Latest management update	RAG status
<p>identify, prior to the payment being made, that this had been erroneously input to the system. The error was subsequently identified by the Council during the process of making the payment for the PAYE/NIC amounts for this month. The error was identified before the PAYE/NIC was paid and no overpayment was made in respect of these amounts. It was identified after the employee had been paid that the net amount paid to this employee was overstated. Although the Council has controls in place to stop such payments taking place, these controls were ineffective and failed to stop the payment being made. In this instance, the employee repaid the amount they were overpaid. There is however a risk that another employee may not have done so, and that this could lead to a large outflow of resource to the council which they are unable to recoup.</p>					<p>the end of input and then again following any amendments that may have been required. The two reports are reconciled and would highlight any errors.</p> <p>Internal Audit are aware of the processes in place.</p>	

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

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**Report of the Chief Executive
to
Audit Committee
on
21 January 2017**

Report prepared by: BDO External Auditor

BDO: Annual Audit Letter 2015/16

Executive Councillor – Councillor Moring

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To present the External Auditor's Annual Audit Letter for 2015/16 to the Audit Committee.

2. Recommendation

- 2.1 The Audit Committee approves the Annual Audit Letter for 2015/16.**

3. Background

- 3.1 This Annual Audit Letter summarises the key issues arising from the work BDO have carried out during the year as the Council's auditors, and highlights the key findings that should be considered by the Council.
- 3.2 It is intended to be a short document, aimed at the public, to inform them about the results of the audit. It should be posted onto the Council's website and will also be posted on the Public Sector Audit Appointments (PSAA) website.
- 3.3 A senior representative of BDO (the appointed External Auditor to the Council) will present this report to the Audit Committee and respond to Members' questions.

4. Corporate Implications

- 4.1 Contribution to Council's Aims and Priorities
Audit work contributes to the delivery of all corporate Aims and Priorities.
- 4.2 Financial Implications
The code audit fee for 2015/16 was £181,922.
- 4.3 Legal Implications
The Council is required to have an external audit of its activities that complies with the requirements of the National Audit Office (NAO)' Code of Audit Practice (the Code). By considering this report, the Committee can satisfy itself that this requirement is being discharged.

4.4 People and Property Implications

None

4.5 Consultation

The Annual Audit Letter for 2015/16 has been discussed and agreed with the Director of Finance and Resources.

4.6 Equalities Impact Assessment

None

4.7 Risk Assessment

Periodically considering whether the external auditor is delivering the agreed Annual Audit Plan helps mitigate the risk that the Council does not receive an external audit service that complies with the requirement of the NAO's Code of Audit Practice.

4.8 Value for Money

PSAA sets the fee formula for determining external audit fees for all external auditors.

4.9 Community Safety Implications and Environmental Impact

None

5. Background Papers

None

6. Attachment: BDO's Annual Audit Letter 2015/16



SOUTHEND-ON-SEA BOROUGH COUNCIL

ANNUAL AUDIT LETTER

Audit for the year ended 31 March 2016



EXECUTIVE SUMMARY

Purpose of the letter

This Annual Audit Letter summarises the key issues arising from the work that we have carried out in respect of the financial year ended 31 March 2016. It is addressed to the Council but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public. It will be published on the website of Public Sector Audit Appointments Limited.

Responsibilities of auditors and the Council

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for.

Our responsibility is to plan and carry out an audit that meets the requirements of the National Audit Office's Code of Audit Practice (the Code), and to review and report on:

- the Council's financial statements
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are also required to report where we have exercised our statutory powers under the Local Audit and Accountability Act 2014 in any matter and our grant claims and returns certification work.

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the audit.

BDO LLP
28 October 2016

Audit conclusions

FINANCIAL STATEMENTS

We issued an unqualified true and fair opinion on the financial statements on 30 September 2016.

We reported our detailed findings to the Audit Committee on 21 September. We reported on uncorrected misstatements which management and the Audit Committee concluded were immaterial.

USE OF RESOURCES

We issued an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 30 September 2016.

While there is a recognised funding gap in the Medium Term Financial Strategy (MTFS), we are satisfied that the Council has appropriate arrangements to continue to remain financially sustainable over the period of the MTFS.

EXERCISE OF STATUTORY POWERS

We have not exercised our statutory powers and have no matters to report.

GRANT CLAIMS AND RETURNS CERTIFICATION

Our review of grant claims and returns is in progress and the results will be reported upon completion of this work.

FINANCIAL STATEMENTS

OPINION

We issued an unqualified true and fair opinion on the financial statements on 30 September 2016.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes an assessment of whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates, and the overall presentation of the financial statements.

Our assessment of risks of material misstatement

Our audit was scoped by obtaining an understanding of the Council and its environment, including the system of internal control, and assessing the risks of material misstatement in the financial statements.

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing of the efforts of the audit team.

MANAGEMENT OVERRIDE OF CONTROLS	RESPONSE	FINDINGS
<p>Auditing standards presume that a risk of management override of controls is present in all entities.</p> <p>By its nature, there are no controls in place to mitigate the risk of management override.</p>	<p>We responded to this risk by reviewing the appropriateness of journal entries and other adjustments to the financial statements.</p> <p>We also reviewed accounting estimates for evidence of possible bias and obtained an understanding of the business rationale of significant transactions that appeared to be unusual.</p>	<p>No issues were identified in our review of the appropriateness of journal entries and other adjustments made to the financial statements.</p> <p>We identified one non material unadjusted error in relation to the calculation of the bad debt provision, we did not consider this to be as a result of bias.</p>

FINANCIAL STATEMENTS

Continued

REVENUE RECOGNITION	RESPONSE	FINDINGS
<p>Auditing standards presume that there are risks of fraud in revenue recognition. These risks may arise from the use of inappropriate accounting policies, failure to apply the Council's stated accounting policies or from an inappropriate use of estimates in calculating revenue.</p> <p>In particular, we considered there to be a significant risk in relation to the completeness and existence of fees and charges in the Comprehensive Income & Expenditure Statement (CIES).</p>	<p>We carried out a review of revenue recognition that focused on testing completeness and existence of fees and charges across all service areas within the CIES. We substantively tested an extended sample of fees and charges to supporting documentation to confirm that income had been accurately recorded and earned in the year.</p> <p>We substantively tested an extended sample of receipts either side of the year end to ensure that income was complete and accounted for in the correct period.</p> <p>Testing was completed on revenue streams which are generated at the provision of a service to customers in order to gain assurance that income was materially complete and accurate.</p>	<p>No non-trivial issues were identified by our testing of revenue from fees and charges.</p>
HRA PROPERTY REVALUATIONS	RESPONSE	FINDINGS
<p>Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) is not materially different to the fair value at the balance sheet date. The Code requires management to carry out a full valuation of its land and buildings on a periodic basis (at least every 5 years). In the intervening years, management is required to assess whether there has been a material change in the value of its assets which should be accounted for.</p> <p>As part of the 5 year rolling revaluation programme, all HRA property assets were revalued in 2015/16. Upon review of these revaluation schedules during the audit planning, we identified that the upward revaluation of HRA properties totalled £40m and downward revaluation totalled £37m. Of the £37m downward movement, £16m was the write off of generic capital expenditure items for which there appeared to be a reasonable explanation. However, current market conditions for property led us to expect only upward revaluations and so the remaining downward revaluation movement of £21m was contra to our expectations and judged to be indicative of potential material misstatement.</p>	<p>We reviewed the instructions provided to the valuer and reviewed the valuer's skills and expertise in order to determine that we could rely on the management expert.</p> <p>We reviewed the basis of valuation for assets valued in year to ensure it was appropriate based on their usage.</p> <p>We performed a comparison of the values applied to a sample of HRA properties against the values for which equivalent properties were sold for in the private housing market.</p>	<p>Our comparison work on the values applied to each of the HRA properties sampled against the values for which equivalent properties were sold in the private housing market indicated that the values applied to all sampled properties were appropriate.</p> <p>We were satisfied that property valuations were materially correct and the basis of valuation for assets valued in the year was appropriate.</p> <p>We concluded that we were able to rely on the Council's management expert.</p>

FINANCIAL STATEMENTS

Continued

INDEXATION OF PROPERTY, PLANT AND EQUIPMENT	RESPONSE	FINDINGS
<p>Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) is not materially different to the fair value at the balance sheet date. The Code requires management to carry out a full valuation of its land and buildings on a periodic basis (at least every 5 years). In the intervening years, management is required to assess whether there has been a material change in the value of its assets which should be accounted for.</p> <p>The Council determined that there was a material change in the value of some of their assets in 2015/16 and applied an indexation uplift to account for this change. The percentage increases applied by the Council are determined by class of asset with the highest percentage applied being 8%. However current market conditions for property lead us to believe that a number of assets will have increased in value by more than 8%. Some of the percentages applied are therefore contra to our expectations and were judged to be indicative of potential material misstatement.</p>	<p>We responded to this risk by reviewing the instructions provided to the valuer and reviewed the valuer's skills and expertise in order to determine that we could rely on the management expert to calculate these indices.</p> <p>We reviewed the indices applied by the Council, and confirmed that the basis used for calculating them was appropriate.</p> <p>We reviewed valuation movements against indices of price movements for similar classes of assets and followed up valuation movements that appeared unusual against indices.</p>	<p>Our review of the indices applied confirmed that all indices were either in line with expectations against the price movements for similar classes of assets or were within a tolerable variance of these price movements.</p> <p>No issues were identified from our testing, with all indices applied concluded to be reasonable.</p>

PENSION LIABILITY	RESPONSE	FINDINGS
<p>The pension liability comprises the Council's share of the market value of assets held in the Essex County Council Pension Fund and the estimated future liability to pay pensions.</p> <p>An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation.</p>	<p>We reviewed the reasonableness of the assumptions applied by comparing these to the expected ranges provided by an independent consulting actuary report.</p>	<p>We were satisfied that the assumptions used were not unreasonable or outside of the expected ranges.</p>

FINANCIAL STATEMENTS

Continued

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements.

We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonably knowledgeable users that are taken on the basis of the financial statements.

Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

The materiality for the financial statements as a whole was set at £8.6 million. This was determined with reference to a benchmark of gross expenditure (of which it represents two per cent) which we consider to be one of the principal considerations for the Council in assessing the financial performance.

We agreed with the Audit Committee that we would report all individual audit differences in excess of £215,000.

Audit differences

Our audit identified one audit difference not corrected in the final financial statements that impact on the reported surplus on the provision of services. This was for £2.575 million, being the difference between the impairment allowance for receivables calculated by the Council and the impairment allowance calculated based upon historical collection rates.

There was also one unadjusted error from the previous year that would have affected the reported surplus on the provision of services by £0.583m.

Correcting for these remaining misstatements would result in the Council reporting a £1.992 million higher surplus on the provision of services for the year.

Management and the Audit Committee consider that these misstatements did not have a material impact on the financial statements.

There were no differences that were corrected in the revised draft financial statements that affect the reported surplus for the year. However, some amendments to classifications were made, as follows:

- An adjustment of £2.5m was made to gross up the additions and disposals in respect of investing activities in the note to the cash flow statement.
- An amendment of £914,000 was made to the consolidation adjustments made to the Group Balance Sheet.
- An adjustment of £3.054m was made to the HRA income and expenditure statement in order to align it with the CIES.
- A reclassification adjustment of £48,000 was posted between the additional provisions made in the year and the amounts used in the year, in respect of the insurance provision.

Other matters we report on

Annual governance statement

We are satisfied that the Annual Governance Statement is not misleading or inconsistent with other information we were aware of from our audit.

Narrative reporting

Local authorities are required to include a narrative report in the Statement of Accounts to offer interested parties an effective guide to the most significant matters reported in the accounts. The narrative report should be fair, balanced and understandable for the users of the financial statements.

We were satisfied that the information given in the narrative report for the financial year for which the financial statements were prepared was consistent with the financial statements.

FINANCIAL STATEMENTS

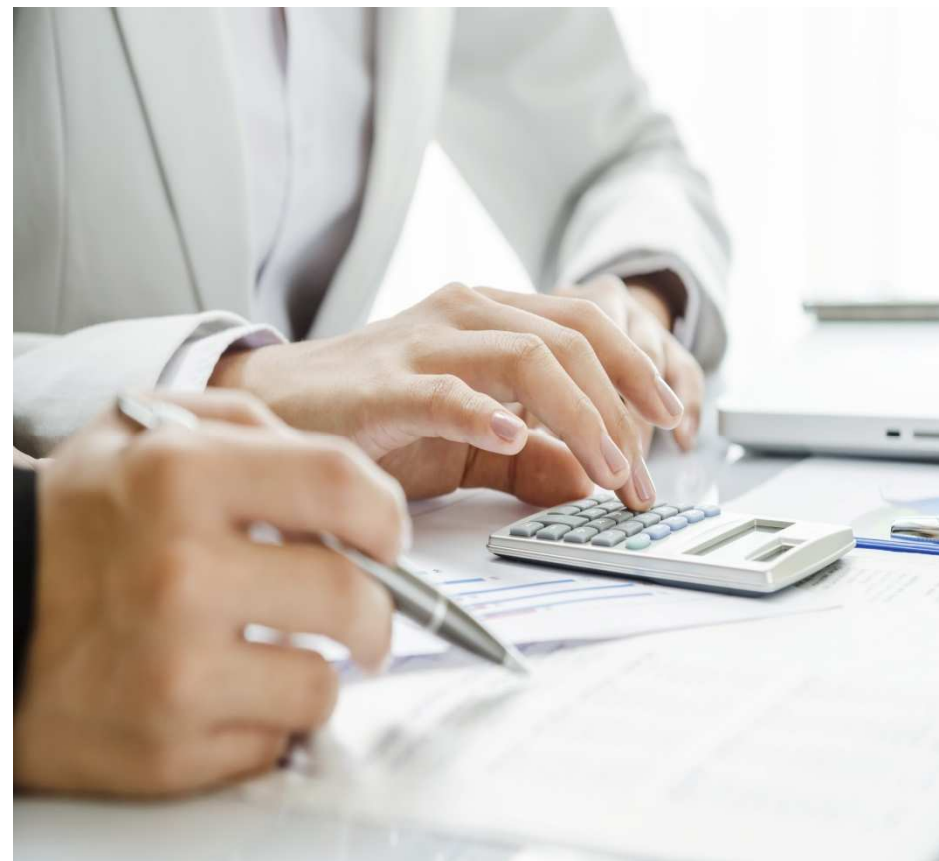
Continued

Internal controls

We found two significant deficiencies in internal controls during the course of our audit.

- Payroll Amendments - Evidence to support amendments to the Payroll system (including starters, leavers and amendments to staff records) could not be found for a number of amendments during testing completed by Internal Audit. This creates a risk that incorrect or fraudulent amendments could be made. This point was previously reported by Internal Audit.
- Payroll Authorisation - The Council identified that one employee was erroneously paid £363,000 (£627,000 gross) in April 2015. Although the Council has controls in place to stop such payments taking place, these controls were ineffective and failed to stop the payment being made. We understand that the employee repaid the amount promptly.

Some other areas for improvement were identified which we have discussed with management.



FINANCIAL STATEMENTS

Continued

Whole of Government Accounts

Auditors are required to review Whole of Government Account (WGA) information prepared by component bodies that are over the prescribed threshold of £350 million in any of: assets (excluding certain non current assets); liabilities (excluding pension liabilities); income or expenditure.

We completed our review in accordance with the Group Audit Instructions issued by the National Audit Office. This requires that we compare the information in the Council's Data Collection Tool (DCT) submission with the audited financial statements, undertake testing of completeness and accuracy of WGA counter party transactions and balances, and provide an assurance statement to the National Audit Office.

The DCT was amended as a result of the audit and our assurance statement was submitted on 21 October 2016.

We concluded that the DCT was consistent with the audited statutory accounts.

 We reported three inconsistencies in the mapping between the accounts and the DCT:

- The totals of the usable and unusable reserves did not map directly to the final signed accounts because of the way the DCT formulae pulls through the group reserves. Without the workings of the DCT form being revised, it is not possible for the Council to accurately reflect their reserves on the balance sheet.
 - The net cost of services figure in the DCT does not map directly to the final signed accounts. This is because two grants (the New Homes Bonus and the Education services grants) are included in a different place in the DCT. In the accounts these are included in taxation and non specific grant income, however in the DCT these are included within the cost of services.
 - The debtor and creditor figures in the DCT do not map directly to the final signed accounts. This is as a result of an amendment made to the DCT at the request of the DCLG on the 21 August 2015 to correct the Council Tax/ Business Rates Debtors and Creditors. As this amendment was requested in the prior year, the Council have posted a consistent adjustment in the current year.
-

USE OF RESOURCES

CONCLUSION

We issued an unqualified conclusion on the arrangements for securing economy, efficiency and effectiveness in its use of resources on 30 September 2016.

Scope of the audit of use of resources

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources based on the following reporting 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.

As part of reaching our overall conclusion we consider the following sub criteria in our work: informed decision making, sustainable resource deployment and working with partners and other third parties.

Our assessment of significant risks

Our audit was scoped by our knowledge brought forward from previous audits, relevant findings from work undertaken in support of the opinion on financial statements, reports from the Council including internal audit, information disclosed or available to support the governance statement and annual report, and information available from the risk registers and supporting arrangements.

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing of the efforts of the audit team.

SUSTAINABLE FINANCES	RESPONSE	FINDINGS
Government continues to reduce funding for local government, and combined with additional pressures arising from demographic and other service delivery changes, this will have a significant impact on the financial resilience of the Council in the medium term.	<p>We reviewed the latest Medium Term Financial Strategy (MTFS) which covers the four year period to 2019/20. The Council set a balanced budget for 2016/17 but this requires planned savings of £10.1 million to be achieved. The MTFS forecasts a budget gap totalling £28.1 million over the remaining three years which will need to be funded through either savings or additional revenue in order to maintain the current general fund position. This is a reduction from the MTFS published at the end of 2014/15 year which showed a budget gap of £32.4 million. The two MTFS' cover different years and the reductions is due to the gap for 2019/20 in the current MTFS being lower than the budget gap for 2016/17 in the prior year MTFS. The budget gap is forecast to arise as follows:</p> <p>2017/18: £12.4 million (increased from £10.3 million in the previous MTFS)</p> <p>2018/19: £8.4 million (consistent with the previous MTFS)</p> <p>2019/20: £7.3 million.</p> <p>Although the current budget gap is significant the Council is aware of the importance of finding sustainable savings or new revenue streams.</p>	<p>Whilst the Council has identified a significant funding gap, action is being taken to ensure the matter is addressed and the Council has a track record of achieving its financial plans.</p> <p>Sufficient reserves and balances are available to support the Council's services in the medium term, should there be under performance against savings plans.</p> <p>Therefore, while there is a recognised funding gap in the MTFS, we are satisfied that the Council is undertaking appropriate arrangements to manage this in a way that will ensure it remains financially sustainable over the period of the MTFS.</p>

EXERCISE OF STATUTORY POWERS

REPORT BY EXCEPTION

We have not exercised our statutory powers and have no matters to report.

Objections

We received one objection in relation to rental income from London Southend Airport Company Limited. On the basis of the amounts involved and that the Council was taking corrective action we decided not to take any further action on the grounds that the cost of us undertaking further work would be disproportionate to the sums to which the objection related. In reaching this conclusion we considered and concluded that nothing in the objection led us to have serious concerns about the way the Council is managed or led. A letter was sent to the objector on 28 September 2016.

Audit certificate

We were unable to issue the Audit Certificate until the Whole of Government Accounts return had been completed. This was completed on 21 October 2016 in line with the revised deadline. We issued the audit certificate to close the audit for the year ended 31 March 2016 on 27 October 2016.

GRANT CLAIMS AND CERTIFICATION

CERTIFICATION WORK

Our review of grant claims and returns for 2015/16 is in progress and the results will be reported upon completion of this work.

Housing benefit subsidy claim

Public Sector Audit Appointments Ltd has a statutory duty to make arrangements for certification by the appointed auditor of the annual housing benefit subsidy claim.

Our audit of the 2014/15 housing benefits subsidy claim found a number of errors identified from our testing which required further testing. Where we could not conclude that errors were isolated these were reported to the Department for Work and Pensions in the qualification letter.

Our work on the 2015/16 housing benefits subsidy claim is currently in progress and will be completed ahead of the submission deadline of 30 November 2016.

Other claims and returns

A number of grant claims and returns that were previously included within the scope of the audit have since been removed, but Departments may still seek external assurance over the accuracy of the claim or return.

These assurance reviews are undertaken outside of our appointment by the Audit Commission or Public Sector Audit Appointments Ltd, and are covered by tripartite agreements between the Council, sponsoring Department and the auditor.

The Council has requested that we undertake a 'reasonable assurance' review, based on the instructions and guidance provided by the Departments, for the following returns for 2015/16:

- Pooled housing capital receipts (deadline 30 November 2016)
- Teachers' pensions return (deadline 30 November 2016)

Our work on these returns is currently in progress.

APPENDIX

Reports issues

We have issued the following reports since our previous annual audit letter.

REPORT	DATE
Grant claims and certification work 2014/15	February 2016
Audit Plan	March 2016
Report to Audit Committee (ISA260 Report to those charged with governance)	September 2016
Annual Audit Letter	October 2016

Fees

We reported our original fee proposals in our Audit Plan. We have not had to amend our planned fees.

AUDIT AREA	PLANNED FEES	FINAL FEES
Code audit	142,816	142,816
Certification of housing benefits subsidy	22,226	⁽¹⁾ 22,226
Fee for audit services	165,042	165,042
Audit related services:		
- Pooled housing capital receipts	2,500	⁽¹⁾ 2,500
- Teachers' Pension Return	6,950	⁽¹⁾ 6,950
- Objection ⁽²⁾	N/A	1,430
Fee for audit related services	9,450	10,880
Non audit related services:		
- Review of internal audit provision	6,000	6,000
Total fees	180,492	181,922

Note 1 - Our work on the Housing Benefit subsidy claim and the other claims and returns for 2015/16 is in progress and we will report the findings from this work and the final fees separately.

Note 2- Time spent on Objections is billed at the actual hours spent at the rates set by Public Sector Appointments Limited.

The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising.. No responsibility to any third party is accepted.

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Southend-on-Sea Borough Council

Agenda
Item No.

8

Report of the Chief Executive

to

Audit Committee

on

18th January 2017

Report prepared by: Linda Everard, Head of Internal Audit

Internal Audit Services, Quarterly Performance Report

Executive Councillor – Councillor Moring

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To update the Audit Committee on the progress made in delivering the Internal Audit Strategy for 2016/17.

2. Recommendations

- 2.1 **The Audit Committee notes the progress made in delivering the 2016/17 Internal Audit Strategy.**

3. Internal Audit Plan Status

- 3.1 **Appendix 1** sets out the current status of the audit work planned for the year as at 6th January 2017. There have been a few final amendments to the Audit Plan.
- 3.2 The Adult Social Care Independent File Review audit has been deleted as the service has informed Internal Audit that the:
- Adult Social Care File Audit Framework will be developed after the implementation of the new client file recording database LiquidLogic that is to be implemented in the summer of 2017. This new system will be an asset and will be able to capture easily what will be needed to:
 - provide evidence of safe practice, or
 - be able to highlight issues that may need addressing or further improvement.
 - it was not economic to spend time and resources on amending Care First (the current case management IT system) with the imminent introduction of LiquidLogic
 - Safeguarding Board will be made aware of this change of plan, and will be scheduled to discuss this later in 2017.

- 3.3 An interim manager was bought in, in May 2016, to review the current arrangements for managing Better Start Early Years project. This work is just coming to an end and a new governance framework is in the process of being implemented. Therefore, this audit will be postponed until these new arrangements have had time to become embedded into the day to day operational processes of this project.
- 3.4 A new job has been added into the Audit Plan which involves looking at the design and effectiveness of the arrangements within the Departments of Place and People to get assurance over the delivery of projects.
- 3.5 In the event, specialist resources were only available to do most of the ICT audit work in the January to March 2017 quarter. Therefore, the IT Systems and Network Access Controls review will be moved to early 2017/18, given the other work already being done in this area during this period.
- 3.6 Finally, the payroll audit will now be done in April 2017, when all the actions should have been implemented (there is one with a target date of March 2017).
- 3.7 Therefore, the budgeted number of days contained in the Audit Plan for this year is now 730. As reported previously, this reduction in days from the original estimate, is mainly due to the team keeping a cash sum to fund the planned recruitment exercise.
- 3.8 Expected timings for the remaining audits are highlighted in the Audit Plan.
- 3.9 A revised split of coverage over the different audit categories and departments is also contained at the end of the Audit Plan, for information.

4. Audit Opinions and Themes

- 4.1 **Appendix 2** summarises the level of assurance reported for each audit completed to date. The Corporate Management Team has given the position on audit opinions serious consideration and is urgently seeking ways to address and improve the situation, including staff training through the roll out of the new framework *"How it works, a guide for managers to help the Council run effectively"*.
- 4.2 It should be noted that the assurance reported when audits are revisited, relates to the degree to which the service has dealt with the actions agreed. It does not relate how well the system, service or process is operating as a whole.
- 4.3 **Appendix 3** summarises the results of and where appropriate, the audit opinions given on work completed to date. School audits, where draft reports were issued before they became academies, have been included for information.

5. Performance Targets

- 5.1 As at 6th January 2016, the service is on target to deliver sufficient work to enable the Head of Internal Audit to give an annual opinion on the adequacy and effectiveness of the Council's risk management, control and governance arrangements as:
 - sickness absence remains low at 0.31 days per FTE compared to a target of under 5 days per FTE
 - 65% of reports are at draft report (i.e. the work is substantially complete).

- 5.2 Given the high level of contracted out work this year, the productivity indicator is no longer a useful performance indicator for the team. Therefore, this won't be reported upon for the remainder of 2016/17.

Resourcing

- 5.3 The combined service will be going out to recruit to an Audit Manager and Part Qualified Auditor / Auditor post in January 2017. A further recruitment exercise will then be undertaken later in the year. Discussions will also be held between Southend-on-Sea Borough Council and Castle Point Borough Council on the most appropriate way to restructure and organise the combined service going forward.

6. Corporate Implications

6.1 Contribution to Council's Aims and Priorities

Audit work contributes to the delivery of all corporate Aims and Priorities.

6.2 Financial Implications

The Audit Plan will be delivered within the approved budget.

Any financial implications arising from identifying and managing fraud risk will be considered through the normal financial management processes.

6.3 Legal Implications

The UK Public Sector Internal Audit Standards require the Audit Committee to approve (but not direct) the annual Internal Audit Plan and then receive regular updates on its delivery. This report contributes to discharging this duty.

6.4 People and Property Implications

People and property issues that are relevant to an audit within the Audit Plan will be considered as part of the review.

6.5 Consultation

The audit risk assessment and the Audit Plan are periodically discussed with the Chief Executive, Corporate Directors / Director, and Heads of Service before being reported to Corporate Management Team and the Audit Committee.

All terms of reference and draft reports are discussed with the relevant Corporate Directors / Director and Heads of Service before being finalised.

6.6 Equalities Impact Assessment

The relevance of equality and diversity is considered during the initial planning stage of the each audit before the Terms of Reference are agreed.

6.7 Risk Assessment

Failure to operate a robust assurance process (which incorporates the internal audit function) increases the risk that there are inadequacies in the internal control framework that may impact of the Council's ability to deliver its corporate aims and priorities.

The main risks the team continues to manage are the:

- loss of in-house staff and the ability of the service to replace this resource in a timely manner

- lack of management capacity to support and process work in timely manner and provide strategic leadership to the team
- possibility that the external supplier won't deliver contracted in work within the required deadlines to the expected quality standards
- need to maintain relationships with clients / partners until the service has been rebuilt.

6.8 Value for Money

Opportunities to improve value for money in the delivery of services are identified during some reviews and recommendations made as appropriate.

Internal Audit also considers whether it provides a value for money service periodically.

6.9 Community Safety Implications and Environmental Impact

These issues are only considered if relevant to a specific audit review.

7. Background Papers

- The Accounts and Audit Regulations 2015
- UK Public Sector Internal Audit Standards
- CIPFA: Local Government Application Note for the UK Public Sector Internal Audit Standards

8. Appendices

Appendix 1 Internal Audit Plan 2016/17

Appendix 2 Assurance Summary 2016/17

Appendix 3 Audit Opinions and Themes:

- A • High Assurance
- B • Satisfactory Assurance
- C • Partial Assurance
- D • Minimal Assurance
- E • Audits Revisited
- F • Other Audits and Grant Claims
- G • School Audits Revisited

Appendix 1: Internal Audit Plan 2016/17

Dept	Council activity and focus of audit work	Est spend / income	Fraud risk	Status as at 6 January 2017
Managing the Business				
Aim: Excellent				
All	Business Continuity To assess whether the Council has effectively analysed the results of Operation Meltdown and introduced the required improvements.			Report being finalised with client.
All	Complaints Handling To assess whether stage one and two complaints have been handled in compliance with the policy.			Draft report to be produced.
All	Corporate Procurement Strategy and Toolkit To assess whether the Corporate Procurement Strategy and Toolkit are fit for purpose and consistent within the overall set of Contract Management Framework documents.		√	Report issued December 2016.
PL / PE	Departmental Project Assurance Arrangements (New job) To assess the design and effectiveness of the departments arrangements for monitoring the deliver of significant projects.			Terms of reference being produced. Start date to be confirmed.
All	Risk Management, Corporate and Service Plan Risks To assess whether risks, controls and assurances in risk registers are being properly identified and recorded in line with the requirements of the Risk Management Policy and Strategy.			Report issued December 2016.
All	Risk Management, Project Risks To assess whether project risks are properly understood and consistently defined in accordance with the Council's Risk Management Strategy and Toolkit.			Report issued December 2016.
All	Risk Management To provide practice feedback on addressing the issues arising from the original work			Terms of Reference agreed. Meetings currently being arranged.
Managing Service Delivery Risks				

Appendix 1: Internal Audit Plan 2016/17

Dept	Council activity and focus of audit work	Est spend / income	Fraud risk	Status as at 6 January 2017
Aim: Safe				
PE	Social Care IT Case Management System Contract, Procurement To assess whether the replacement IT system for CareFirst , the Children's Services and Adult Service case management system, was appropriately specified and selected, so audit focus will be how the package was procured.		√	Report issued December 2016.
PE	Social Care IT Case Management System, Project Implementation Health Check To assess whether the replacement IT system for CareFirst, the Children's and Adult Service case management system, is implemented, properly by the planned go live date.			Report issued November 2016.
PE	Social Care IT Case Management System, Project Implementation, Children's Services To assess whether the project plan is implemented properly by the planned go live date.			Terms of Reference agreed. Work in progress.
PE	Adult Social Care Independent File Review To assess whether there is robust management review of adult social care files to ensure they met all required statutory and good practice requirements.			Deleted, see comment in quarterly performance report.
PE	Adult Social Care Services, Assessment of Personal Budgets To assess whether personal budgets paid by direct payments are valid, accurate and complete as per the client's assessed needs.	*	√	Report issued December 2016.
PE / PL	Domestic Homicide Reviews To assess whether action plans produced following safeguarding reviews (children's and or adult Serious Case Reviews and or Domestic Homicide reviews) are being implemented, in a timely manner and actively monitored by senior management.			Draft report to be produced.
PE	Financial Monitoring of Direct Payments To assess whether there are robust financial monitoring arrangements in place to ensure payments made directly to clients (not via Vibrance the Council's contract provider) are used to meet the assessed eligible needs and outcomes identified in Care Support Plans.	*	√	Draft report being produced.
PE	Safeguarding Child Sexual Exploitation	100		Feedback was provided to management on the action

Appendix 1: Internal Audit Plan 2016/17

Dept	Council activity and focus of audit work	Est spend / income	Fraud risk	Status as at 6 January 2017
	Action Plan To work with management to ensure actions contained in the action plan are SMART.			plan before it was finalised in June 2016.
PE	Social Care Payments to Individuals and Providers To assess the robustness of the arrangements to ensure accurate social care payments are made covering one or more of the following: <ul style="list-style-type: none"> Residential care including Dynamic Purchasing system (Sprock) Direct payments Home care Children's care. 	£9.7M	✓	Terms of Reference agreed. Planned for March 2017.
<i>Implementing Action Plans</i>				
PE	<ul style="list-style-type: none"> Mental Health Direct Payments 	*		Draft report being finalised with clients.
PL	<ul style="list-style-type: none"> Licensing 	£474k (income)		Draft report being finalised with clients.
PE	<ul style="list-style-type: none"> Safeguarding: Serious Case Review Action Plan Implementation 			Work in progress.
PL	<ul style="list-style-type: none"> Traffic Management Schemes implemented by Traffic Regulation Orders 			Report issued January 2017.
Aim: Clean				
	No work planned			
Aim: Healthy				
PE	Commissioning Public Health Services for 0-5 Year Olds To assess whether the 0 to five year old services to be transferred to the Council in October 2015 are effectively integrated into the Council and associated budgets are sufficiently understood to ensure the services can be affordable delivered future years.	*		Report issued December 2016.
PE	Drug and Alcohol Commissioning Team Governance To evaluate the clarity and understanding of its	£2.8M		Terms of Reference agreed.

Appendix 1: Internal Audit Plan 2016/17

Dept	Council activity and focus of audit work	Est spend / income	Fraud risk	Status as at 6 January 2017
	objectives, role and reporting lines.			Work in progress.
PE	Public Health, Health Protection To assess whether there are robust policies, procedures and working arrangements in place with relevant parties to ensure public safety, prevent transmission of diseases and manage incidents which threaten the public's health.			Report issued July 2016.
PL	Leisure Services (Fusion) Contract Management To assess whether the Leisure contract is being effectively managed.	£300k (income)	√	Work in progress.
PE	Pioneer Programme Board / Integrated Commissioning Team To map how the Pioneer Programme Board operates, including: <ul style="list-style-type: none"> its work streams and management of specific Council risks its governance structure and reporting the link with the Better Care Fund's Section 75 Agreement how the joint commissioning team fits in. 			Work to start in February 2017.
PE	Adult Social Care Local Authority Trading Company To develop an internal audit risk assessment, Charter, Strategy and Audit Plan for 2017/18.	*	√	As part of the 2017/18 audit planning work, the potential need for and scope of this will be considered.
<i>Implementing Action Plans</i>				
PE	<ul style="list-style-type: none"> Family Mosaic Contract Management 	£865k	√	Draft report being produced.
PE	<ul style="list-style-type: none"> Managing OFSTED Action Plans 			Report issued December 2016.
PE	<ul style="list-style-type: none"> Reablement 	*		Work to start in March 2017.
PL	<ul style="list-style-type: none"> The Forum Governance Arrangements 	£4M		Draft report produced.
Aim: Prosperous				
PL	Airport Business Park To assess whether robust arrangements are in place to provide independent assurance regarding the future performance of the project.	£10M (over four years) 102		Terms of Reference agreed. Work to start week commencing 9th January 2017.

Appendix 1: Internal Audit Plan 2016/17

Dept	Council activity and focus of audit work	Est spend / income	Fraud risk	Status as at 6 January 2017
PE	Better Queensway To assess whether robust arrangements are in place to provide independent assurance regarding the future performance of the project.	£1.5M		Terms of Reference agreed. Work to start week commencing 18th January 2017.
PE	Better Start Early Years (Big Lottery Grant over 10 years) To assess the adequacy of the governance arrangements, specifically relating to: <ul style="list-style-type: none"> • clarity of deliverables • risks to the Council • roles and responsibilities • accountability for delivering grant terms and conditions. 	£40M		Deleted, see comment in quarterly performance report.

PE	Corporate Procurement Team, Contract Letting To assess whether it operates in accordance with recognised professional standards and its own procedures by reviewing some contracts let by the team.	*	√	Work to start mid January 2017.
PE	Corporate Procurement Team, Procure to Pay (P2P) To assess the effectiveness of the new arrangements introduced by the Corporate Procurement team to monitor compliance with P2P requirements.			Draft report with Head of Internal Audit to review.
PE	Housing Allocations To assess whether the Allocations Policy reflects good practice and is properly and consistently applied.		√	Report issued December 2016.
CE	Leases and Licences To assess whether lease and license records are complete, reviewed in a timely manner and all income due is collected.	*	√	Terms of Reference agreed. Work to start in January 2017.
PE	Purchasing Cards (P Cards) To assess the robustness of arrangements for: <ul style="list-style-type: none"> • issuing cards • monitoring and post authorising the spend. 	£2M	√	Report issued October 2016.

Appendix 1: Internal Audit Plan 2016/17

Dept	Council activity and focus of audit work	Est spend / income	Fraud risk	Status as at 6 January 2017
CE	Right to Buy To assess whether the legal aspects of the transaction are processed properly and other Council services are notified of and amend their records accordingly. (This links to a review of the front end of the process at South Essex Homes)	£4M	√	Draft report being finalised with client.
<i>Implementing Action Plans</i>				
PE	<ul style="list-style-type: none"> Southend Adult College 			Draft report with Head of Internal Audit to review.

Aim: Excellent				
PL	Highways Contract, Processing Payments To assess whether the payments made for works under the Malborough Surfacing contract (Lot 1) are accurate and properly authorised in line with Contract Procedure Rules / Financial Regulations.	£9.7M	√	Interim feedback briefing memo provided to management.
PE / PL	Works Contract Letting, St Helen's Roman Catholic School To assess whether the works contract was let properly, met the clients' expectations and delivered in budget.	*	√	Report issued January 2017.
PE	Section 75 Partnership Agreement, Integrated Equipment Service To assess whether Section 75 agreements clearly set out the service requirements and how the service will be managed on an on-going basis.	*	√	Report issued December 2016.
PL	Management of Works Contracts To assess whether works contracts are effectively managed.	*	√	Terms of Reference to be produced. Work to start mid January 2017.
Aim: All				

Appendix 1: Internal Audit Plan 2016/17

Dept	Council activity and focus of audit work	Est spend / income	Fraud risk	Status as at 6 January 2017
PL	Cyber Security Governance To assess the effectiveness of arrangements in place to protect the Council from cyber attacks and other online vulnerabilities.		√	Terms of Reference agreed. Work to start week commencing 16th January 2017.
PL	IT Data Security Policy Application To assess whether the relevant standards are met to ensure the Council's data is secure.			Draft report with client.

PL	IT Infrastructure and Asset Management To assess whether the on-going management of IT fixed assets ensures the IT infrastructure meets the Council's service needs.			Report issued November 2016.
PL	IT Systems and Network Access Controls To assess the effectiveness of controls in place to restrict access to important Council system and network functions.		√	Terms of Reference produced. This work will be postponed until 2017/18, see comment in quarterly performance report.
PL	IT Change Management To assess whether there is an effective, corporate process for managing changes made to IT systems used by services.			Terms of Reference produced. Work to start week commencing 12th January 2017.

Implementing Action Plans

PL	<ul style="list-style-type: none"> Cleaning Services Contract Management 	£348K	√	Work in progress.
PL	<ul style="list-style-type: none"> Third Party Hosting 			Terms of Reference agreed. Work in progress.
CE	<ul style="list-style-type: none"> Welfare Reform 			Report issued September 2016.

Key Financial Systems

Aim: All Aims

To assess whether the key controls in each of the key financial systems effectively prevent or detect material

Appendix 1: Internal Audit Plan 2016/17

Dept	Council activity and focus of audit work	Est spend / income	Fraud risk	Status as at 6 January 2017
errors on a timely basis so that this information can be relied upon when producing the Council's statement of accounts.				
	Financial Systems 2015/16			
CE	• Accounts Receivable: General Debtors	£5.2M	√	Report issued September 2016.
CE	• Accounts Payable	£334M	√	Report issued September 2016.
CE	• Council Tax	£83M	√	Report issued September 2016.
CE	• General Ledger			Report issued September 2016.
CE	• Housing Benefits	£91M	√	Report issued September 2016.
CE	• Income, Receipting and Banking		√	Report issued September 2016.
CE	• Treasury Management	£85M	√	Report issued September 2016.
	Financial Systems 2016/17			
CE	• Systems work required to support the audit of the financial statements			Work to start in January 2017.
CE	• Accounts Payable	£334M	√	Work to start in February 2017.
CE	• Payroll	£129M	√	Postponed until April 2017, see comments in quarterly performance report.
CE	• Accounts Receivable: Social Care Debtors	*	√	Work to start in March 2017.
Grant Claims				
	To certify, in all significant respects, that the conditions attached to the grant have been complied with.			
PL	• Coastal Communities Fund	£67K		Work substantially done.
PE	• Troubled Families Programme, Payments by Results Scheme Grant	£648K 106		Report issued September 2016.

Appendix 1: Internal Audit Plan 2016/17

Dept	Council activity and focus of audit work	Est spend / income	Fraud risk	Status as at 6 January 2017
				Next audit to start in March 2017.
PL	<ul style="list-style-type: none"> South East Essex Local Growth Fund 	£330K		Unqualified opinion given July 2016.
PL	<ul style="list-style-type: none"> Highways Maintenance Challenge Fund 	£1.4M		Unqualified opinion given September 2016.
PL	<ul style="list-style-type: none"> Local Transport Capital Block Funding 	£2.6M		Unqualified opinion given September 2016.
PE	<ul style="list-style-type: none"> Disabled Facilities Grant 	£694K		Unqualified opinion given September 2016.
PL	<ul style="list-style-type: none"> A127 Corridor Growth Scheme 	£4.1M		Unqualified opinion given September 2016.

Advice and Support

To provide critical support and challenge to management whilst they are reviewing or development services, systems or process, so appropriate controls can be built into them as the work is completed.

Aim: Safe

PE	Children's Services' Safeguarding Performance Indicators To assess whether the correct core data is used as required by the definitions and method of calculations, to produce the Children's Services' Safeguarding Performance Indicators (PI).			Interim report produced for management December 2016.
PE	OFSTED Report Action Planning To support the service in producing a SMART action plan from the OFSTED inspection report.			Work completed. Feedback taken into account in preparing final report for submission to OFSTED.

Aim: Prosperous

PE	Education Board To provide supportive, critical challenge as the new regime develops and is implemented.			Draft report with Head of Internal Audit to review.
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Appendix 1: Internal Audit Plan 2016/17

Dept	Council activity and focus of audit work	Est spend / income	Fraud risk	Status as at 6 January 2017
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All Aims

PL	Fuel Cards To provide independent review, support and challenge to assist with the delivery of the groups' objectives and work programme.			Complete.
CE	Payroll To provide advice and support as the actions from the most recent Payroll audit are implemented.			Complete.
PE	Action Planning A workshop was delivered to a group of staff from the Department of People on how to produce effective action plans.			Delivered November 2016.

To provide independent review, support and challenge to assist with the delivery of the groups' objectives and work programme.

	Attendance at Groups To provide supportive, critical challenge as required			
	<ul style="list-style-type: none"> Agresso Review Group 			Attend as required.
	<ul style="list-style-type: none"> External Grant Funding Group 			Attend as required.
	<ul style="list-style-type: none"> Good Governance Group 			The Head of Internal Audit attends.
	<ul style="list-style-type: none"> Schools Support and Improvement Board 			The Head of Internal Audit attended until the Board disbanded in July 2016.

Appendix 1: Internal Audit Plan 2016/17

Dept	Council activity and focus of audit work	Est spend / income	Fraud risk	Status as at 6 January 2017
Managing Delivery of the Audit Plan				
	Audit Planning, Resourcing			
	Managing Contractor Work			
	Reporting to Management Team and Audit Committee			
	Contingency			

Implementing action plans

The objective of this work is to check that actions agreed have been effectively implemented and are now embedded into the day-to-day operation of the service.

* Values of the activity to be audited will be added into the Audit Plan where relevant when the work is undertaken.

Appendix 1: Internal Audit Plan 2016/17

Dept	Council activity and focus of audit work	Fraud risk	Status as at 6 January 2017
Schools Audit Programme			
Aim: Prosperous			
PE	Virtual School The robustness of the processes in place which ensure Looked After Children achieve the outcomes in their Personal Education Plans.	√	Terms of Reference agreed. Work to commence on 6 March 2017.
PE	Schools Audit Programme To assess whether individual schools have adequate and effective governance, information and asset management as well as financial management and reporting arrangements in place.		
	<ul style="list-style-type: none"> Earls Hall Primary School 	√	Work to commence on 21 February 2017.
	<ul style="list-style-type: none"> Leigh North Street Primary School 	√	Work to commence on 28 February 2017.
PE	Revisiting audit reports To check that recommendations made have been implemented, properly, in a timely manner.		
	<ul style="list-style-type: none"> Blenheim Primary School 	√	Report issued June 2016.
	<ul style="list-style-type: none"> Chalkwell Hall Junior School 	√	Report in the process of being finalised.
	<ul style="list-style-type: none"> Friars Primary School (Academy from 1/9/16) 	√	Report issued December 2016.
	<ul style="list-style-type: none"> Hamstel Infant School (Academy from 1/9/16) 	√	Report issued December 2016.
	<ul style="list-style-type: none"> Heycroft Primary School 	√	Report issued December 2016.
	<ul style="list-style-type: none"> Hinguar Community Primary School (Academy from 1/9/16) 	√	Report issued December 2016.
	<ul style="list-style-type: none"> Kingsdown Primary School 	√	Report issued December 2016.

Appendix 1: Internal Audit Plan 2016/17

Dept	Council activity and focus of audit work	Fraud risk	Status as at 6 January 2017
	<ul style="list-style-type: none"> Milton Hall Primary School 	√	Report issued December 2016.
	<ul style="list-style-type: none"> Our Lady of Lourdes Catholic Primary School 	√	Work to commence on 29th March 2017.
	<ul style="list-style-type: none"> Seabrook College 	√	Report issued December 2016.
	<ul style="list-style-type: none"> Sacred Heart Catholic Primary School 	√	Report issued September 2016.
	<ul style="list-style-type: none"> St George's Catholic Primary School 	√	Report in the process of being finalised.
	<ul style="list-style-type: none"> St Helen's Catholic Primary School 	√	Report in the process of being finalised.
	<ul style="list-style-type: none"> St Nicholas School 	√	Report in the process of being finalised.
	<ul style="list-style-type: none"> The Federation of Greenways Schools (Academy from 1/10/16) 	√	Report issued December 2016.

Appendix 1: Internal Audit Plan 2016/17

Resource Allocation		
Audit Activities	% of total resources available	
	Original	Revised
Managing the Business*	3%	8%
Managing Service Delivery Risks*	60%	71%
Key Financial Systems*	13%	3%
Grant Claims	4%	6%
Advice and Support	2%	6%
General Contingency	12%	0%
Managing Delivery of the Audit Plan	6%	6%
Total Council Audit Plan Days	1,000	730

*Include any work to revisit and retest action plans from previous reports.
This excludes the schools work programme which is funded separately.

Analysis Over Departments			
		Original	Revised
CE	Chief Executives	0%	8%
CS	Corporate Services	29%	0%
PE	People	41%	55%
PL	Place	21%	27%
PH	Public Health	0%	0%
All	Cross cutting	9%	10%

Appendix 2: Assurance Summary 2016/17

Audit Plan Areas	Level of Assurance			
	High	Satisfactory	Partial	Minimal
Managing the Business		<ul style="list-style-type: none"> • Corporate Procurement Strategy and Toolkit (Dec 2016) • Risk Management, Corporate Plan Register (Dec 2016) 	<ul style="list-style-type: none"> • Risk Management, Service Plan Risks (Dec 2016) • Risk Management, Project Risks (Dec 2016) 	
Managing Service Delivery Risks	<ul style="list-style-type: none"> • Commissioning Public Health Services for 0 to 5 year olds (Dec 2016) 	<ul style="list-style-type: none"> • Public Health, Health Protection (Jul 2016) 	<ul style="list-style-type: none"> • Social Care IT Case Management System, Project Implementation Health Check (Nov 2016) • Adult Social Care Services, Assessment of Personal Budgets (Dec 2016) • Housing Allocations (Dec 2016) 	<ul style="list-style-type: none"> • Social Care IT Case Management System Contract, Procurement (Dec 2016) • Purchasing Cards (P Cards) (Oct 2016)

Appendix 2: Assurance Summary 2016/17

Audit Plan Areas	Level of Assurance			
	High	Satisfactory	Partial	Minimal
Managing Service Delivery Risks			<ul style="list-style-type: none"> • Works Contract Letting, St Helen's Roman Catholic School (Dec 2016) • IT Infrastructure and Asset Management (Nov 2016) 	<ul style="list-style-type: none"> • Section 75 Partnership Agreement Integrated Equipment Service (Dec 2016)

Appendix 2: Assurance Summary 2016/17

Audits Revisited	Action Implementation Level			
	High	Satisfactory	Partial	Minimal
Implementing Action Plans	<ul style="list-style-type: none"> Traffic Management Schemes implemented by Traffic Regulation Orders (Dec 2016) 	<ul style="list-style-type: none"> Managing Ofsted Action Plans (Dec 2016) 	<ul style="list-style-type: none"> Welfare Reform (Sept 2016) 	

Appendix 2: Assurance Summary 2016/17

Grant Claims	Level of Assurance	
	Unqualified	With Qualification
	<ul style="list-style-type: none"> • Troubled Families Programme, Payments by Results Scheme Grant (Sept 2016) • South East Essex Local Growth Fund (Jul 2016) • Highways Maintenance Challenge Fund (Sept 2016) • Local Transport Capital Block Funding (Sept 2016) • Disabled Facilities Grant (Sept 2016) • A127 Corridor Growth Scheme (Sept 2016) 	

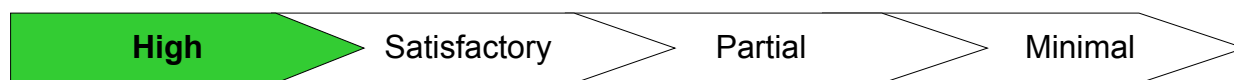
Appendix 2: Assurance Summary 2016/17

Schools Audits Revisited	Action Implementation Level			
	High	Satisfactory	Partial	Minimal
Implementing Action Plans	<ul style="list-style-type: none"> • Blenheim Primary School (Jun 2016) • Hamstel Infant School (Dec 2016) 	<ul style="list-style-type: none"> • Heycroft Primary School (Dec 2016) • Kingsdown Primary School (Dec 2016) • Milton Hall Primary School (Dec 2016) • Sacred Heart Catholic Primary School (Sept 2016) 	<ul style="list-style-type: none"> • Friars Primary School (Dec 2016) • Hinguar Community Primary School (Sept 2016) • Seabrook College (Dec 2016) • The Federation of Greenways Schools (Jan 2017) 	

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Appendix 3A: Audit Opinion and Themes

Assurance



Commissioning Public Health Services for 0 to 5 Year Olds

Objective

To assess whether there are robust arrangements in place to ensure that the 0 to 5 year olds contract is being delivered properly in compliance with the specified performance and quality standards, at the correct cost / price.

Themes

The responsibility for commissioning public health services for 0 to 5 year olds was transferred to the Council from NHS England in October 2015. Overall, the process was well managed.

The Health Transformation Board had met regularly to discuss progress with the transfer of commissioning responsibilities to the Council in October 2015 and beyond. There were also regular meetings with NHS England to ensure budget proposals for the transferred service were appropriate. The Benson planning model (which is a highly regarded health visitor planning methodology) was used to:

- ensure the latest thinking was adopted when developing the Council's Health Visiting approach
- help determine the most appropriate split in allocating the budget (using the demand from the prevailing 0 to 5 year old demographic).

Key Performance Indicator reports are produced by Public Health regarding 0 to 5 year olds and discussed regularly at Directorate Management Team meetings. The Public Health Outcomes Framework is also used to compare performance with peer local authorities.

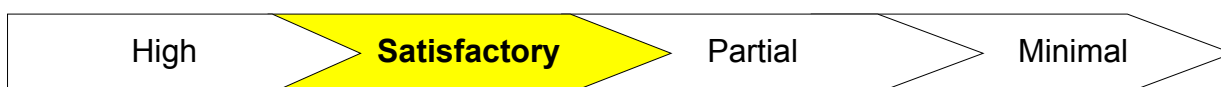
The contract was agreed in line with the NHS model and was finalised prior to the Council involvement. The on-going arrangements for monitoring the commissioning of 0 to 5 year public health services are also appropriate. Regular contract monitoring meetings are held, which cover key performance and contractual areas. Action points ("recovery plans") emanate from the meetings and issues are followed up in the next meeting.

Number of actions agreed: 0

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Appendix 3B: Assurance and Themes

Assurance



Corporate Procurement Strategy and Toolkit

Objective

To assess whether the Corporate Procurement Strategy and Toolkit are:

- fit for purpose and reflect relevant professional standards and recognised good practice guidance
- consistent within themselves and other Contract Management Framework documents.

Theme

Overall, the Council's Corporate Procurement Strategy and Toolkit are fit for purpose, consistent within themselves and the other elements of the contract management framework.

The Strategy is clear and concise containing those elements of any business strategy that would expect to be seen. It compares favourably to others seen, being succinct and readable. Action is still required to set up the Procurement Review Board in accordance with the role stipulated in the Contract Procedure Rules.

Each objective within the strategy is accompanied by a set of key performance indicators. They are consistent with key aspects of the Contract Procedure Rules and the restructuring of the procurement function. They should therefore, provide meaningful measures of the successful, or otherwise, implementation of the contract management framework. Overall, this reflects a move away from traditional 'buying sections' to a more modern procurement function that uses technology to assist with the procurement process. It should also help ensure that the Corporate Procurement Team (the team) can influence procurement behaviours within the Council.

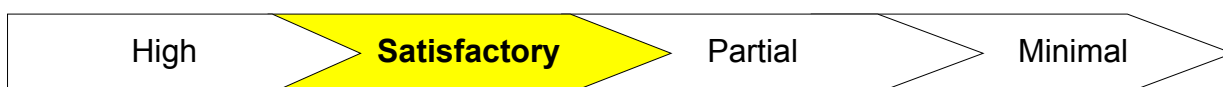
The team has been restructured into two specialisms to enable it to provide more oversight of procurement across the entire Council. This is consistent with restructurings seen elsewhere, where this procurement approach has been adopted. Job profiles have been updated accordingly, with appropriate levels of professional qualification set out for each role.

The team has produced a number of types of spend analysis which have been used to inform the annual Procurement Plan and realise better procurement savings through aggregation and collaboration opportunities. The spend analyses' produced compare favourably with examples seen elsewhere.

As at May 2016 when the fieldwork for the audit was completed, a Contracts Register had been produced and was available via the Council's external website but it was not up to date. Officers have informed Internal Audit that the Contracts Register is now aligned to spend analysis and is a complete, accurate up-to-date record of corporate contracts.

Appendix 3B: Assurance and Themes

Assurance



A critical services, supplies and works Contracts Register also needed to be produced at this time. The identification of these contracts and production of exit strategies would assist the Council's resilience should a business interruption event due to contract failure occur. This exercise is expected to be completed by the end of March 2017.

The Procurement Toolkit (collectively the toolkit and all other supporting guidance documents and templates) compares favourably to what has been seen elsewhere, being more comprehensive than is normally seen. Guidance on post-tender negotiation and Appendix 4 of the Procurement Toolkit could not be located at the time of the audit.

The team need to ensure that only current procurement documents are available on the intranet and internet.

Number of actions agreed: 6

Risk Management Corporate and Service Plan Risks

Objective

To assess whether risks, controls and assurance within risk registers are properly understood and consistently defined in accordance with the Council's Risk Management Strategy and Toolkit.

Theme

Corporate Risk Register

The Corporate Risk Register was found to be maintained in accordance with the approved Strategy, using the Covalent (the performance management IT system). The process for identifying risks at this level and then monitoring how well they are mitigated is in line with good practice.

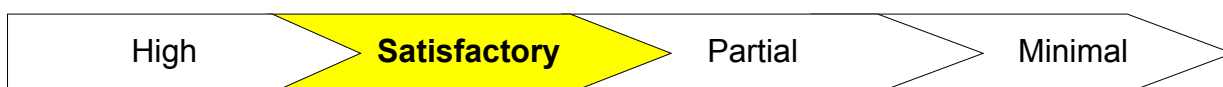
Corporate risks are reviewed annually as part of the process for developing the Corporate Plan as would be expected. It is good that the number of risks at this level are kept to a manageable number and are strategic. There is evidence that risks move in and out of this register as issues are dealt with. The content of the risk register complies with good practice guidance.

The current Corporate Risk Register report format may make it difficult for recipients to:

- efficiently digest the high-level information the document provides
- easily see where the issues lie (i.e. which really are the most significant risks due to the way the colours within the matrix are currently configured).

Appendix 3B: Assurance and Themes

Assurance



The controls identified against risks are, in most cases, a mixture of actions that will either prevent, detect or direct activity to operate in the manner expected, which indicates a robust control environment.

The movement of the current risk score since the last update of the register was also provided to the audience, thus demonstrating how the implementation of the planned actions had affected the risk rating. Although most of the risks reviewed demonstrated an understanding of the risk and control environment, this was not consistently the case.

Number of actions agreed: 0

Public Health, Health Protection

Objective

To assess whether there are robust policies, procedures and working arrangements in place with relevant parties to ensure public safety, prevent transmission of diseases and manage incidents which threaten the public's health.

Themes

Overall, the Council is discharging its regulatory duties effectively with regard to the protection of the local population's health. The policy, procedure and working arrangements framework includes:

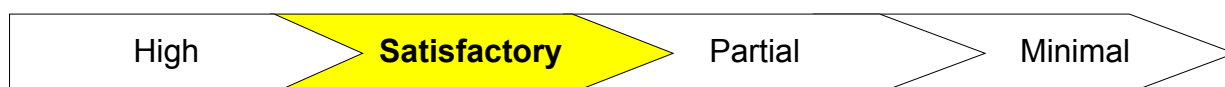
- a comprehensive Emergency Plan and Combined Operating Procedures in Essex (COPE) for multi-agency responsiveness to emergencies developed by the Essex Resilience Forum
- Business Continuity Procedures for the in-house service
- Cold Weather and Heatwave Plans adopted from Public Health England
- Seasonal Influenza Plan created with local partners
- an overarching plan for Control of Communicable Disease developed by Public Health England Essex Health Protection Team on behalf of Essex Directors of Public Health, Chief Officers of Local Authority Environmental Health Departments.

All plans went through a high level of review, involving the Director of Public Health, the Local Health Resilience Partnership and Public Health England's Local Health Protection Team, to ensure they followed good practice.

A Memorandum of Understanding is in place between the members of the Local Health Resilience Partnership. This outlines the key roles and responsibilities of partners in the event of a significant public health incident or outbreak, as well as the agreement to provide resources and help to fellow partners.

Appendix 3B: Assurance and Themes

Assurance



To gain assurance regarding the preparedness of partner organisations to address public health issues, responsibility for which is defined within the Health & Social Care Act 2012, the Council is part of two Essex-wide groups. These groups also conduct exercises based on potential health protection scenarios and assess their success to ensure lessons are learnt. The Council also gains continuous assurance from the activities of Public Health England and the Local Health Protection Team.

The budget for Health Protection within the Council is approximately £15,000. Whilst relatively small, it may be able to reclaim monies from partner health bodies if it was required to significantly increase spend in response to a significant public health incident, as part of a risk sharing agreement.

Increased reporting to Members and Senior Management is required to provide assurance regarding the work that the Director of Public Health and Public Health Team are carrying out in relation to health protection.

Number of actions agreed: 1

Appendix 3C: Audit Opinion and Themes

Assurance



Risk Management, Corporate and Service Plan Risk

Objective

To assess whether risks, controls and assurance within risk registers are properly understood and consistently defined in accordance with the Council's Risk Management Strategy and Toolkit.

Themes

Service Risk Register

All of the 2015/16 Head of Service, Service Plans contained risks, which were identified when the Service Plans were produced at the start of the year. However, there was no evidence that these had been updated throughout the year as circumstances changed.

The number of risks identified by services as part of the service planning process varied considerably. This demonstrates the inconsistent approach applied and also the difference in information corporately feeding the Corporate Risk Register from the bottom up.

The approach adopted to capturing risks in these service plans varied in format and content. There are two options within the approved corporate methodology, full or summary. In the latter cases, the format used does not:

- communicate inherent or target risk
- distinguish between the actual and planned controls
- require the service to consider the assurances available to them in monitoring the risk.

There was also no supporting evidence that demonstrated that a full analysis of risk had actually been undertaken and captured or that risks were clearly understood and being appropriately mitigated although this activity had reportedly taken place within the workshops held to develop the service plan.

Although all services areas report to be using Covalent for tracking performance data, as at March 2016, risks have not been consistently updated and monitored in this way. Therefore, the Council does not currently have a consistent, central repository for recording and managing service risks. This has progressed since the audit took place with more use being made of Covalent to track risk actions.

The risk rating at the corporate level should in part, be informed by the experiences within the service areas. Group Managers operationally manage service delivery, yet there is no requirement to have team plans at this level (which would include identification of risk). Therefore, it is unclear how these operational risks are being consistently captured, summarised where necessary, and used to raise concerns (i.e. risks) that require more senior input to mitigate or manage.

Appendix 3C: Audit Opinion and Themes

Assurance



Finally, it was difficult to evidence that risks and mitigating actions are being communicated between projects and business as usual activities. This is due to the lack of documented risk information at service level as well as within some of the projects reviewed as part of a separate exercise.

Number of actions agreed: 0

Risk Management, Project Risks

Objective

To assess whether project risks are properly understood and consistently defined in accordance with the Council's Risk Management Strategy and Toolkit.

Themes

The four significant corporate projects reviewed as part of this audit were A Better Start, Airport Business Park, Better Queensway and the Integrated Pioneer Programme.

For cross partner projects, the risk management methodology used was found to be determined by the lead organisation, which is not unreasonable. However, the Council led projects were not using the Council's risk management approach so, for example:

- a different template and matrix of risk ratings were used and there was no distinction between strategic or project / operational risk
- risk ownership was allocated to groups as well as organisations instead of individuals.

Nevertheless, there was evidence of a good level of understanding with regards to the risks the projects were facing.

Whilst the Council's Risk Management Framework requires controls and assurances to be documented, the templates being used did not consistently require this. This makes communication, challenge and escalation of risks is less efficient and effective. Again, conversations with Project Managers provided more assurance regarding levels of understanding. However due to the omissions from the risk registers, it cannot be confirmed that this is shared by all stakeholders involved with the project.

The Council had implemented additional governance around projects by requiring significant ones to report monthly, into Corporate Delivery Board. However, the link into service risk management processes was not as defined or evident from either the review of the risk registers or discussions with officers.

Corporate Delivery Board receives dashboards and individual highlight reports for selected projects, which include their top two risks. However:

Appendix 3C: Audit Opinion and Themes

Assurance



- only the Airport Business Park consistently produced the monthly reports
- project leads did present these reports.

Given the breadth of the Corporate Delivery Board's agenda, it would be advantageous to formalise the use of risk in:

- driving the focus of each meeting i.e. prioritise projects reporting high or increased risks
- determining the frequency of formal reports being presented to it.

It is expected that the risks reported to the Corporate Delivery Board within the highlight report can be clearly linked back to the risk management activity within the project and contained in the risk register. However, this was not always the case.

The some risks within the Airport Business Park highlight report were strategic for the partnership and could not be mitigated by Council action alone. Whilst of interest, the focus should be on strategic Council risks that require mitigating action.

The role and objectives of the Corporate Delivery Board were not formally documented; therefore, there may be inconsistency in the understanding of the role and responsibility of this group.

The methodology for including a project or excluding a project from the Corporate Delivery Board agenda was also not documented. However, during 2015/16, there was evidence of projects being removed from and added to the agenda in year. This indicates there was some on-going review of what needs to go to it.

In November 2016, responsibility for the Airport Business Part and Better Queensway was reallocated to the Director of Regeneration and Business Development. Audit reviews of how effectively these projects are being managed, will be completed by March 2017, which will also consider any developments in managing project risks.

Number of actions agreed: 0

Social Care IT Case Management System, Project Implementation Health Check

Objective

To assess whether the project processes for the new integrated Social Care IT Case Management System have been established to:

- support the intended timeframes
- achieve the expected benefits.

This review will also help to develop Internal Audit's approach for providing appropriate assurance over the lifecycle of the project.

Appendix 3C: Audit Opinion and Themes

Assurance



Themes

Elements of good project planning were in place but there was scope to strengthen the overall process to enable it to drive the implementation of the new case management system by the due date. Management worked closely with Internal Audit during this work so that opportunities to strengthen these arrangements were actioned at the earliest opportunity.

Project planning

A Microsoft project plan had been produced for Phase 1 of the project and included the allocation of resources for all activities. Action was being taken to clarify the requirements and deliverables for Phase 2 of the project so they were transparent. Monthly update reports were provided to the Project Board and were to be amended to include details of actual progress made against the delivery of the project plan.

Further amendments were required to the plan so their impact on the project could be monitored more effectively:

- linking sequenced activities (i.e. dependencies) so that they flowed through the project plan appropriately
- tracking external activities (which are outside the project control, but that have an impact the project) e.g. work being undertaken as part of the Adult Transformation Project.

The project plan and the primary supplier's (LiquidLogic) plan were to be integrated and reconciled regularly to avoid any confusion, delays or additional cost. The sequence of activities (critical path) was then to be determined and activities prioritised to enable the overall project due date to be achieved.

Risks were regularly reviewed prior to Project Board meetings, updates were sent with board papers and they were recorded in a risk register according to a clear scoring matrix. Going forward, they were also to be discussed as core agenda items at Project Board meeting and risk owners were to be named rather than identified as functions.

Project assumptions had been documented in the Project Initiation Document (PID) and these were going to be reviewed and updated if necessary. Both an issues log and a decision log were to be created. The latter to be used to capture any assumptions made and as a management tool which is maintained and updated following Project Board meetings by the project team.

Benefits management

Arrangements were to be put in place to track and then monitor whether the benefits of the project, as described in the Project Initiation Document (PID) and subsequently updated, are actually delivered when the system goes live. Dis-benefits (which is a potential drawback of a benefit) were to be identified and the impact of them, considered.

Appendix 3C: Audit Opinion and Themes

Assurance



Testing

Further work was required before the arrangements for testing and migrating data between systems were fit for purpose.

Testing had been broken into appropriate cycles and there was evidence that test scenarios were to be developed with input from the services. Testing for two data migration phases (DM1 and DM2), was included in the project plan and was to be developed for the third and fourth data migration phases (DM3 and DM4). Test scenarios were also required for the user-testing phase.

The roles and responsibilities of the project team and the service areas during data migration were to be defined. It was noted that data should only be migrated once data requirements are agreed by the service areas.

Change management

The project change control process was outlined in the PID. Improvements to the change control template have been agreed to ensure changes are fully and consistently assessed.

Business readiness criteria were to be defined and agreed with service areas.

Number of actions agreed: 7

Adult Social Care Services, Assessment of Personal Budgets

Objective

To assess whether the arrangements in place to identify and assign an indicative resource allocation / personal budget are in line with national criteria and reflect local market conditions.

Theme

Personal budgets were introduced in 2008 and redefined in the Care Act 2014. Legislation requires personal budgets to be reviewed on a regular basis and at least annually, to ensure that they still meet the individual's needs.

When this scheme came in, a matrix was introduced to provide an indicative guide to the level of personal budget required by an individual. In line with other councils nationally, Southend-on-Sea Borough Council developed a system known as the Resource Allocation System that uses a Price Per Point to calculate an individual's personal budget. This system has not been maintained and key elements of it required to calculate individual's personal budget, are now out of date.

Appendix 3C: Audit Opinion and Themes

Assurance



However, all personal budget assessments are subject to management review, with management approval required of those valued up to £185 per week. Personal budgets over £185 per week are subject to review and approval by the Finance Authorisation Panel (the Panel). There is a need to adopt a more consistent approach to recording the management challenge of personal budgets proposed by caseworkers. However, there is consistent evidence of robust challenge regarding cases referred to the Panel.

Arrangements need to be strengthened to ensure that annual reviews do occur for everyone that has a personal budget, as there was evidence that a number were overdue.

Following changes in the Act, it is no longer compulsory for councils to calculate price per points for personal budgets and a number have discontinued the process. An Adult Social Care Transformation Project is scheduled to take place in 2017 that will include a fundamental review of the process for assessing personal budgets.

Number of actions agreed: 10

Housing Allocations

Objective

To assess whether Southend-on-Sea Borough Council (the Council's) Allocations Policy reflects good practice and is properly and consistently applied.

Themes

The Council's Housing Allocation Policy (the Policy) has been in place since August 2014 and is largely in line with the current guidance available from the Department of Communities and Local Government (DCLG). Some clarification is required in a few areas i.e.:

- it offers differing levels of guidance for assessing and evidencing 'housing need' elements of an application
- it does not sufficiently cover how to deal with:
 - financial assessments of current tenants wishing to re-join the register
 - assessing applications for those applying for sheltered housing.

The Council's ability to then apply the Policy in a consistent manner has been limited as there are no procedures in place to guide staff on how to implement it in practice.

Currently, the only time independent reviews of housing applications and assessments take place, is if applicants appeal initial decisions. Requests to appeal decisions are not logged, so it is not possible to easily identify or track them. Also they are not always considered by a person different to the one dealing with the original application. This is in contravention with Policy requirements.

Appendix 3C: Audit Opinion and Themes

Assurance



In the short term, a monitoring record should be established that tracks applications through the whole process that is regularly reconciled to the Abitras system (Choice Base Letting System). In the longer term, consideration should be given as to whether the IT software used by this service is fit for purpose, given data is stored in two different systems that don't talk to each other.

The introduction of independent management checks at key points within the allocation process, would offer some assurance that procedures are adhered to and consistently applied.

Direct Lets are undertaken in line with the relevant policies with supporting evidence readily available to support this, so the decision-making process was clear. Property shortlists automatically ranked successful applicants, who were contacted in order with reasons for any deviances or omissions clearly noted on the Abitras system. A regular reconciliation of allocations against adverts placed should be introduced to identify any that have been omitted and allow suitable remedial action to be taken.

There is currently no management information available to monitor whether key Policy timescales are being met. This appears to be due in part, to the limited information that can be sourced from the Abitras system.

The Council does not currently request any performance information from South Essex Homes in relation to the allocations work it undertakes. The Council should make its expectations clear and outline key performance information it wishes to receive from the company, before the planned handover of further work in this area.

Number of actions agreed: 7

Works Contract Letting, St Helen's Roman Catholic School

Objective

To assess whether the:

- letting of the AW Hardy works contract in relation to work at St Helen's Roman Catholic School (the School) was administered fairly, without favouritism or bias, in accordance with Southend-on-Sea Borough Council (the Council's) Contract Procedure Rules
- exercise produced a contract that will ensure stakeholders' expectations / requirements are met in accordance with the respective budgets.

Appendix 3C: Audit Opinion and Themes

Assurance



Themes

The key elements expected of a good practice procurement process, had taken place and the contract let was within budget. The value of the works for Phase 2 of this project was £1,982,110. Stakeholders were involved in preparing the service specification, evaluating whether submissions met their requirements and at the build stage of the project. Nevertheless, non-compliance with legislation, the Council's Contract Procedure Rules and proper procurement practice was identified in the letting of this contract.

So, for example:

- a comprehensive options appraisal could not be produced
- the project brief and plan did not explain why the work was phased, why the particular form of contract and type competitive process was used.

During the tender evaluation stage, it was noted that:

- the project plan did not state whether the project manager was authorised to manage slippages or whether they needed to be referred to someone more senior for a decision
- evidence had not been retained that appropriate references were obtained for two out of seven economic operators expressing an interest in this contract
- the Invitation to Tender (ITT) was inconsistent as to whether tenders could be modified after the submission deadline or not, and one was
- although the bids were recorded on the register, the register itself had not been certified by the officers opening them nor did it state the available budget or a pre-tender estimate
- the could not be located in the Council's Corporate Contract Register, in line with the requirements of the Local Government Transparency Code 2015
- the Invitation to Tender document identified individuals on the evaluation panel
- the full scoring system for the interviews with bidders was not disclosed in the ITT in line with the requirements of the Treaty on the Functioning of the European Union principle of transparency
- one bidder was not given the option to be interviewed in line with the process set out in the ITT, although it was arithmetically impossible for them to win nor provide clarifications on their bid because their price was deemed too high.

The contract was entered into a week after the date for possession of the first section allowing the contractor to commence works. Whilst this does not comply with good practice, the risk in this case was deemed minimal, as a full payment cycle had not elapsed.

Appendix 3C: Audit Opinion and Themes

Assurance



Nevertheless, a price and quality evaluation (subject to the issues listed above) was completed. A tender analysis report had been produced as expected, which showed that an arithmetic check of the evaluation was undertaken. Two contract managers / administrators worked on the project to provide cover when necessary. An appropriate type of standard contract was used which contained performance indicators as well as time (complete date), cost (contract sum), and quality / design (for example, number of class bases required) obligations. The deliverables specified in the contract met the objectives of the initial project brief completed in 2012. The project was also delivered successfully in time and on budget.

Many of the issues identified will be dealt with going forward, by the requirement to involve the Corporate Procurement team in any procurement over £25k. However, where appropriate, action is being taken to strengthen the Property, Regeneration and Strategic Projects team's arrangements by providing staff with additional guidance and training in respect of good procurement practice.

Number of actions agreed: 7

IT Infrastructure and Asset Management

Objective

To assess whether the IT infrastructure and asset portfolio¹ is well managed, secured and helps deliver both effective IT and wider-Council services.

Themes

The hardware asset register needs to be updated so that it is a complete and accurate record of what the Council owns. It then needs to be refreshed at least annually to ensure it remains up to date.

The software asset register was largely satisfactory. However, additional details about the licensing arrangements for each software package should be included in the records, including the number of licences held and the type of licensing arrangement.

Procedure notes and flowcharts were available to demonstrate the asset management processes operating within the Council. However, these would be better formalised into a single, accessible policy.

The relative priority of assets that are fundamental to the operation of Council-wide services has been identified satisfactorily with key assets being prioritised in asset registers and in the frequency of the maintenance checks performed by ICT.

¹ IT hardware, software, network resources and services, and the physical environment in which they are situated, required for the operation and management of IT services. This could include computers, servers, server rooms, mobile devices, file storage platforms, network appliances such as firewalls, switches and routers.

Appendix 3C: Audit Opinion and Themes

Assurance



An IT Asset Procurement audit (14-05) conducted in May 2015 by the Council's Internal Audit team found that when procuring new ICT assets, the processes for defining the required condition and performance of these assets were satisfactory.

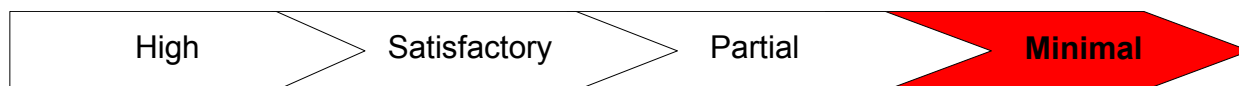
A daily checklist of important tests of the Council's ICT infrastructure was found to be largely satisfactory. The condition and performance of key assets (i.e. key software packages and physical servers) are checked on a daily basis, and issues are followed up satisfactorily when identified.

Assets awaiting deployment or disposal were also found to be held securely. Rooms containing IT assets that are located on the ground floor of the Civic Centre (i.e. visible to the public) are protected by reflective window film, preventing members of the public being able to identify high value assets.

Number of actions agreed: 4

Appendix 3D: Opinion and Themes

Assurance



Social Care IT Case Management System Contract, Procurement

Objective

To assess whether the:

- letting of the Social Care IT Case Management System contract was administered fairly, without favouritism or bias, in accordance with the Council's Contract Procedure Rules
- exercise produced a contract that will ensure stakeholders' expectations / requirements are met in accordance with the respective budgets.

Themes

The Project Board had undertaken an initial options appraisal and an Options Appraisal Authorisation Form had been completed. However, it could not be evidenced as to how the decision to use a Framework Agreement was made, as this was not documented in the options appraisal reported to the Project Board.

Stakeholders were involved in preparing the service specification and evaluating whether submissions met their requirements. However, there was no evidence that the specification or evaluation questions had been signed off by the Project Board, to confirm they reflected stakeholder objectives.

The key elements expected of a good practice procurement process, had taken place when the Social Care IT Case Management System contract was let, within budget. However, there were instances where best practice guidance and the Council's Contract Procedure Rules were not followed or insufficient evidence was retained to confirm compliance. Most of the issues related to the way in which the tender process was conducted by a member of staff who has now left the Council.

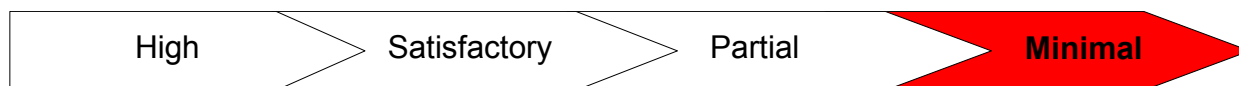
The manner in which the Corporate Procurement team operate is set out in a Strategy and Toolkit (which has been subject to a separate audit) which should have been applied when letting this contract. The opportunity is being taken to amend the Procurement Toolkit to further clarify expectations in a few areas. A quarterly check is also being introduced of completed procurements to confirm that all relevant documentation has been retained.

Further negotiation is being undertaken around one aspect of the contract to try to improve the terms, regarding the cost of optional software modules going forward.

Number of actions agreed: 9

Appendix 3D: Opinion and Themes

Assurance



Purchasing Cards (P-Cards)

Objective

To assess whether the arrangements in place to monitor and challenge expenditure on Council Procurement Cards (P-Cards) are sufficient to prohibit inappropriate use or inconsistent practices.

Themes

The majority of Purchasing Card (P-Card) expenditure was not supported by receipts or other appropriate evidence on the system. This fundamentally limits the Council's ability to detect errors or fraud and challenge the validity of spend in a number of key areas, namely whether:

- VAT is being recorded accurately
- the Council's HR policies regarding personal allowances / expenses are being followed appropriately
- areas of expenditure protected by specialist gatekeepers (e.g. ICT equipment purchases) are being bypassed.

This also increases the risk that the Council will be unable to:

- reclaim VAT it should be entitled to
- defend challenges from Her Majesty's Revenues and Customs in this regard.

Delays in staff coding this expenditure can also adversely impact on how promptly the P-Card system can be reconciled to the Council's General Ledger.

Action is being taken to ascertain whether a module can be purchased for the P-Card system that would allow receipts and supporting evidence to be saved within it so all the relevant information is contained in one place. At present, such evidence is being saved in a different IT system, CIVICA. This would make it easier to produce reports that identify staff who continually fail to provide the evidence required amongst other things.

It is also being ascertained whether the P-Card system can be configured so that the VAT code is locked down or the choice of codes restricted.

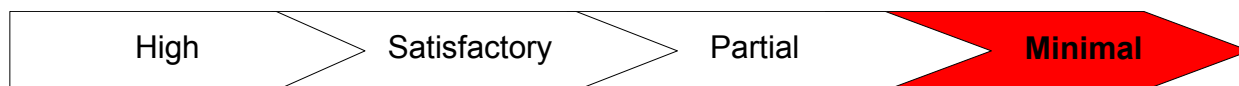
In the meantime, officers are exploring the current reporting options from the P-Card system so see whether any useful management information can be obtained from this source. Persistent offenders will be reported to management and / or their P-Card will be withdrawn.

Spot checks of P-Card expenditure are also being introduced to confirm that relevant Council policies are being complied with, expenditure is valid and being coded properly, particularly in terms of VAT.

Number of actions agreed: 8

Appendix 3D: Opinion and Themes

Assurance



Section 75 Partnership Agreement Integrated Equipment Service

Objective

To assess whether the Section 75 Partnership Agreement clearly sets out the service requirements and how the service will be managed on an on-going basis, to ensure that expected benefits are realised.

Themes

The Section 75 Partnership Agreement (the Agreement) for the Southend Equipment Service (SES) was approved on 27 September 2006 and the supporting Terms of Reference were last updated approximately three years ago. Key elements of the Agreement were found to be satisfactory including the exit strategy, treatment of overspends and the arrangements for the pooled budget. However, both documents now need to be formally reviewed and updated to reflect the current needs of all partners. A more formal and regular review arrangement for these documents also needs to be established.

A more robust operational and performance management framework (which includes the assessment and monitoring of risk) needs to be established for the SES that involves all partners. There are concerns with the current funding arrangements which need to be renegotiated so they are fair, equitable and based on demand for services, as the Southend University Hospital NHS Foundation Trust is the biggest user.

Review meetings, which are a requirement of the agreement, need to be re-established as they had lapsed. A Governing Board or Panel should be established with a schedule of meetings to take place across the year. This will enable stronger lines of communication and aid in:

- the development and future update of risks to the SES
- discussions about its performance and the terms of the Agreement.

Further work will be undertaken to establish how the Council records and monitors the currency and quality of all "agreements" it has with others to provide, buy in or share services, including Section 75 Partnership Agreements.

Number of actions agreed: 9

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Appendix 3E: Audits Revisited

Purpose of these audits

To assess whether the actions agreed in the original audit have been implemented and are now effectively embedded into the day-to-day operation of the service.

Traffic Management Schemes implemented by Traffic Regulations Orders

Original Objective

To assess the effectiveness of arrangements to identify, implement, enforce, monitor and amend highway and traffic management schemes implemented by a Traffic Regulation Order (TRO).

To also assess whether TRO-related actions agreed as part of the Parking Management Scheme audit (completed May 2014) that are now due have been implemented and effectively embedded into day-to-day procedures.

Results

Fully implemented	Substantially implemented	Partially implemented	Not implemented	No longer applicable
6	0	0	0	1

Summary

The Traffic Management and Highways Network service has dealt with all the actions that remained outstanding from the original and subsequent Traffic Regulations Order (TROs) reviews. The original action plan completion date was October 2015. However, work did not start on most of the actions until then and it continued until June 2016, when the audit was concluded.

The business took the decision to undertake a procurement exercise for the development of ParkMap, rather than use internal resource, and therefore Action R6 is no longer applicable.

Staff now use ParkMap to check what TRO's should be in place when out on an inspection and report any exceptions found, which automatically updates the Asset Management system linked to it. They also formally record the inspection on a document that describes all the checks that should be completed. This is independently checked on their return to the office.

The service has also:

- put a traffic management scheme policy and protocol in place, covering all the expected elements
- amended the criteria for assessing requests for Traffic Management and Safety schemes appropriately and the criteria has been approved by Traffic and Parking Working Party
- amended the reports to the Traffic and Parking Working Party (T&PWP) so they now clearly set out the rationale for progressing or not, with schemes

Appendix 3E: Audits Revisited

- made more effective use of the pre-sifting spreadsheet recording all traffic and parking member's requests, to make clear what action if any, is required by the T&PWP.

Managing Ofsted Action Plans

Original Objective

To assess whether the Department for People operates effective processes for ensuring that recommendations contained in action plans arising from Ofsted inspections of schools, Private Voluntary Independent settings, Children's Centres and the Council's Children's Social Care Services, are implemented, properly by the due date.

Results

Fully implemented	Substantially implemented	Partially implemented	Not implemented	No longer applicable
3	0	2	1	0

Summary

Progress has been made to strengthen the process for developing action plans to address issues raised by these Ofsted inspections and ensure "Statements of Action" effectively drive the school to make prompt, significant improvements.

Action has been taken to:

- create templates for:
 - the agendas and minutes of School Improvement Partnership Board meetings and these were found to be in use
 - post Ofsted action plans and Statements of Action, which are now signed off by the Learning and Improvement Group Manager and had been implemented for all schools.
- produce guidance, which explicitly defines the Council's role and powers with respect to managing the implementation of these Ofsted recommendations and how it will evidence this.

Further work is now required to:

- update the Improving Learning Together Policy to provide further guidance on developing and managing all post-Ofsted inspection action plans and Statements of Action
- develop a system which provides:
- evidence that all actions emanating from post Ofsted inspection action plans are being monitored and implemented. It should be noted that these action plans are discussed at School Improvement Partnership Board meetings
- regular reports for senior management on the progress in completing outstanding actions.

Appendix 3E: Audits Revisited

Welfare Reform

Original Objective

To assess whether the action plan from the in-depth Policy and Resources Scrutiny Committee Welfare Reform project is being implemented in line with agreed timescales and there is evidence the required outcomes are being achieved.

Results

Fully implemented	Substantially implemented	Partially implemented	Not implemented	Closed
0	0	1	1	N/A

Summary

The Policy and Resources Scrutiny Committee's final Welfare Reform report was agreed by Cabinet in July 2014. When the original audit report was completed in April 2015, the key issue was that the action plan had not been fully developed, and although some actions had been implemented, it had not been monitored effectively.

As at April 2016, further work was still required to:

- integrate the action plan into Corporate Services' performance management framework so it is routinely monitored by senior management and Members
- update the action plan to include clear measurable outcomes and timescales for pledges six to eight and individual monitoring arrangements for all pledges.

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Appendix 3F: Other Audits and Grant Claims

Troubled Families Programme, Payments by Results Scheme Grant

Objective

To assess compliance with the terms and conditions of the Department for Communities and Local Government's (DCLG) Financial Framework for making Payment by Result (PBR) claims under the Expanded Troubled Families Programme (Phase 2).

Background

The Financial Framework requires that Internal Audit verifies a 10% representative sample of PBR claims before they are made to ensure there is supporting evidence to confirm families:

- met the required criteria to be considered for entry to the expanded Troubled Families Programme
- have achieved either continuous employment or significant and sustained progress as defined by the Council's agreed Outcomes Plan.

Larger sample sizes may be required for smaller claims in order to ensure the audit is meaningful.

Opinion: September 2016, claim signed off

This was the third PBR claim made under the DCLG's new expanded programme. Of the 52 claims due to be made, eight had been independently reviewed by the Group Manager which was in line with previous protocols agreed under Phase 1 of the programme.

The 52 claims were presented to Internal Audit in three batches in June, August and September; with 30 in the last batch presented in September.

Twelve were randomly selected for audit, which included two of the eight claims signed off by the Group Manager. Sufficient evidence was available to confirm:

- families met the eligibility criteria for entry to the expanded programme for **all** the random sample of files selected
- the validity of PBR claims for continuous employment or significant and sustained progress, presented in the June and August 2016 batches.

An initial examination of the required 10% of cases (i.e.: three) in September 2016, identified:

- an inaccurate claim of continuous employment

The PBR requires twenty six weeks of continuous employment to be demonstrated for a claimant previously in receipt of Job Support Allowance. The evidence presented was based on the thirteen week outcome required for claimants previously in receipt of Employment Support Allowance. Enquiries established this had occurred as a result of a misinterpretation of benefits paid when claimants have a period of sickness whilst claiming Job Support Allowance.

- a Child in Need (CIN) PBR claim which had not been closed for six months as required by the Council's Outcome Plan.

Appendix 3F: Other Audits and Grant Claims

The Social Care team confirmed that a further CIN meeting was required to establish whether the case could be closed.

These two cases were withdrawn from the DCLG's PBR claim and will be considered for potential resubmission at a later date. Evidence was also not initially available to confirm other PBR outcomes claimed on the three files examined. Enquiries and checks with associated systems did resolve some, but not all the inconsistencies identified; in particular evidence to confirm domestic violence (DV) outcomes.

As a result of the issues identified above, the decision was made to extend the sample audited in order to gain the required assurance over the validity of the DCLG claim due to be submitted. This additional sample included a targeted review of all twelve domestic violence (DV) PBR outcomes.

This additional work identified that:

- there were no issues with the claims made under the continuous employment criteria
- system data on DV incidents was not up to date when evidence for PBR outcomes was first examined. Subsequent input of data, by colleagues outside the Early Help Family Support team (the team), impacted one of the twelve PBR outcomes for DV and led to the withdrawal of the case from the DCLG's PBR claim.

As such, the issues affecting the three cases withdrawn from the DCLG PBR claim are considered to be isolated instances and unlikely to affect the accuracy of the final DCLG submission.

Going forward:

- recent changes to the staffing structures in the team have significantly increased the numbers of staff responsible for delivering the troubled families programme. Staff training sessions aim to clarify the evidence required on files to demonstrate PBR outcomes
- management's expectation is that independent management checks of case files will become embedded into the team's day to day working practices, with the aim of ensuring PBR outcomes are evidenced in line with the Council's Outcome Plan.

In addition, Internal Audit will continue to work with the team manager and Performance Analyst Officer to improve arrangements for evidencing outcomes. So, for example, recent discussions have resulted in a change to council documents used by Department for Work and Pensions colleagues¹ which will improve evidence to support PBR claims for continuous employment.

¹ Department for Work and Pensions colleagues have been seconded to work alongside council staff to support delivery of the Troubled Families Programme.

Appendix 3F: Other Audits and Grant Claims

Objective

To carry out appropriate investigations and checks in order to certify, in all significant respects, that the money was used to fund capital expenditure in the areas covered by the terms and conditions attached to each of these grant claims.

Highways Maintenance Challenge Fund

Purpose of funding

To assist with the Southend LED street lighting upgrade.

Opinion: Unqualified.

Local Transport Capital Block Fund

Purpose of funding

To assist with transport improvements work such as road resurfacing, new traffic lights and road signage.

Opinion: Unqualified.

Disabled Facilities Grant

Purpose of funding

To provide facilities including fixtures and fitting to properties, to assist disabled people to live at home.

Opinion: Unqualified.

A127 Corridor Growth Scheme

Purpose of funding

For 2015/16, this grant was used on the improvements at Kent Elms corner and the implementation of the pedestrian crossing.

Opinion: Unqualified.

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Appendix 3G School Audits Revisited

Purpose of these audits

To assess whether the actions agreed in the original audit have been implemented and are now effectively embedded into the day-to-day operation of the school.

Original Objective

To assess whether individual schools have adequate and effective governance, information and asset management as well as financial management and reporting arrangements in place.

Friars Primary School (now an academy)

Results

Fully implemented	Substantially implemented	Partially implemented	Not implemented	Unable to test / Closed
5	2	3	9	N/A

Summary Findings

The School had made limited progress in addressing the issues raised in the original report.

Apart from developing role descriptions for Governors, none of the other governance issues raised in the original report had been implemented. Therefore, Governors' had still to annually assess their performance, get the role descriptions and Whistleblowing Policy approved and obtain declaration of interests from a governor and member of staff.

Although a Records Management Policy had not been formally produced, some good practice guidelines were being used to direct this activity. Regular 'weeding' exercises were being undertaken at year-end. A Critical Incident Plan was in place. It still needed to be approved and tested.

Very little action had been taken to address the issues raised in the original report about maintaining good records of assets held and securing them effectively.

The School believed that its approach to planning and linking this to its financial resources was sufficient, therefore the recommendation align a three-year development plan, with a multi-year financial plan was not accepted.

Action had been taken to report benchmarking information to Governors, produce regular cash flow forecasts, check the accuracy and necessity of direct debit payments and ensure payments to individuals were made in accordance with HMRC's Employment Status Indicator.

The School still needed to:

- implement appropriate checks to ensure changes to and new supplier details were valid before they were processed
- develop a standard approach to managing contracts.

Appendix 3G School Audits Revisited

Hamstel Infants School (now an academy)

Results

Fully implemented	Substantially implemented	Partially implemented	Not implemented	Unable to test / Closed
12	0	0	1	N/A

Summary Findings

The school had made excellent progress in addressing the issues raised in the original report and therefore, strengthening its governance, information and asset management and financial management and reporting arrangements.

The panel involved with the procurement of the new cleaning contract, was going to review the performance of the current cleaning provider as part of the procurement exercise planned for this year. However the School still needed to define a contract management approach.

Heycroft Primary School

Results

Fully implemented	Substantially implemented	Partially implemented	Not implemented	Unable to test / No longer applicable
24	6	8	9	4

Summary Findings

Overall, the School has made good progress in dealing with the actions agreed in the original report.

With regard to the School's governance arrangements, further work is required in order to:

- create an annual work programme for the Governing Body, detailing what items will go to which meeting
- create a Governing Body Forward Plan that enables it to delivery its Terms of Reference in compliance with the Scheme of Delegation
- ensure there is a regular assessment of its performance in delivering its terms of reference as well as periodic evaluation of whether the skill set of governors needs supplementing or developing
- introduce a more formal process to ensure the minutes of meetings and committees are always agreed and signed off
- include the need to declare interests as a standing item on Behaviour, Safety and Wellbeing Committee.

Appendix 3G School Audits Revisited

Actions agreed relating to information and asset management have been substantially completed. Future tests of emergency plans need to be properly documented and action plans produced where opportunities to improve the arrangements are identified. Periodic reconciliations are also required of new purchases to the Asset Register.

Work is underway on the School's financial management and reporting arrangements in order to:

- compare teacher-to-pupil ratio information with benchmarking data and use this to assign workloads to members of staff
- create a more robust mechanism for recording when staff DBS checks are due and monitoring their renewal
- ensure that:
 - key documents are always presented to and approved by the Governing Body (e.g. the School Development Plan, the Schedule of Charges)
 - discussions/decisions are properly documented (e.g. the decision taken about Supply Teachers Insurance cover, authorising payments over a certain value)
 - bank reconciliations are periodically re-performed by the Headteacher.
- complete the BACS payment arrangements so the online banking facility can be used and compile a record of all current, signed direct debit instructions
- ensure there is a good understanding of the cumulative value of spend on goods and services, so that an appropriate competitive tendering exercise can be undertaken to ensure value for money is achieved
- develop and document an approach to letting and managing contracts in line with the requirements of Contract Procedure Rules

It has not been possible to retest that:

- leavers access to IT systems is reviewed regularly, as there had only been one since the audit which was dealt with appropriately
- the arrangements for on-line banking as this facility has yet to be activated

As the School does not loan equipment nor does it have any leases, these actions are no longer required.

Hinguar Community Primary School (now an academy)

Results

Fully implemented	Substantially implemented	Partially implemented	Not implemented	No longer relevant
8	1	8	8	1

Appendix 3G School Audits Revisited

Summary Findings

The School had strengthened the arrangements for recording declarations of interest. The revised Financial Regulations and the Scheme of Delegation still needed to be approved by the Governing Body. Its governance arrangements would be improved further once:

- the Governing Body annually assess and report on its own performance against its Terms of Reference
- a Role Description for Governors had been developed.

The processes for effectively managing and securing confidential, personal and sensitive information had been improved. The School then needed to complete 'weeding' exercises in line with the new Records Management Policy.

Very little progress had been made to address the issues identified with recording the School's assets and securing them effectively. This area needed further work.

To improve the financial management and reporting arrangements, the School needed to:

- align its three-year development plan, with a multi-year financial plan
- consolidate the three Schools Funds into one and then arrange for it to be audited
- develop a goods receipting process
- retain evidence that independent checks on requests to change supplier details have been undertaken and then, produce a report of them that is independently checked
- improve its processes for pursuing outstanding debts.

The School no longer has any contracts so the recommendation regarding developing a contract management approach was no longer relevant.

Kingsdown Primary School

Results

Fully implemented	Substantially implemented	Partially implemented	Not implemented	Unable to test / Closed
4	4	2	6	N/A

Summary Findings

The School has made reasonable progress in addressing some of the issues raised in the original report.

In order to complete the work on its governance arrangements, action is still required to:

- create a formal Terms of Reference for the School's Governing Body, and ratify them every two years, evidencing this through a formal minute

Appendix 3G School Audits Revisited

- undertake an annual review of its performance in delivering its Terms of Reference and report on the results of this
- ensure the annual work plan reflects the Governing Body's Terms of Reference once it has been produced.

The Schools has not progressed the need to have a Records Management Policy nor does it regularly review the information it holds and destroy it securely. Its Business Continuity Plan still needs to be finalised.

The School's Asset Register still needs to be reconciled to purchases periodically and six monthly spot checks introduced to ensure it remains accurate and assets can be accounted for.

With regard to strengthening the Schools financial management and reporting arrangements:

- the Finance Manager is yet to explore whether a report from the School's Financial Management Information System can be produced of all changes made to supplier details. This should then be used by another senior member of staff or Governor to independently check changes made to suppliers
- a more formal, contract management approach still has to be defined and documented.

Milton Hall Primary School

Results

Fully implemented	Substantially implemented	Partially implemented	Not implemented	Unable to test / Closed
5	2	2	3	N/A

Summary Findings

The School had made reasonable progress in addressing the issues raised in the original report.

With respect to its Governance arrangements, the only outstanding issue was for the Governing Body to approve the new member role descriptions, which was in hand.

In order to further strengthen its information and asset management arrangements, action is now being taken to:

- ensure equipment purchased is periodically reconciled to the assets recorded on the register
- approve the Loan of Equipment Policy and make some minor amendments to the documentation supporting this.

A decision will be made as to whether backing up data to "The Cloud" is a more robust business continuity arrangement, once the School has determined whether or not to move to Academy status.

The School is also in the process of:

Appendix 3G School Audits Revisited

- producing a list of suppliers who need to submit a proper VAT invoice. Going forward, it will then record any chasing action taken in order to obtain a proper VAT invoice from these suppliers
- ensuring that details of the checks undertaken on the evidence provided to support whether all additions/changes to supplier details are genuine, is held on file in **all** cases.

It will also utilise the Consistent Reporting Framework data to assess sickness absence rates in future.

This will complete the work required on its financial management and reporting arrangements.

Seabrook College

Results

Fully implemented	Substantially implemented	Partially implemented	Not implemented	No longer relevant
8	2	3	4	3

Summary Findings

The College has made some progress in addressing the issues raised in the original report.

With its impending move to Academy status, some of the outstanding governance issues will not be pursued including:

- amending the Governing Body's Terms of Reference
- chasing unsigned copies of Governing Body and committee minutes
- reviewing whether the Chair of the Governing Body should also chairs the Resources and Pay Committees as this is being resolved.

Work is required to improve the College's asset management arrangements by:

- undertaking regular spot checks of assets and periodically reconciling new purchases to the Asset Register to ensure they are accurate and all accounted for
- updating the Asset Register System with details of assets' current condition, whether they has been loaned out or disposed of and their asset tag number.

The College needs to ensure that declarations of interest for all staff and governors with financial decision making authority are obtained regularly.

The College also needs to develop an Information Management and Data Retention Policy and supporting processes.

Financial management and reporting will be further improved once:

- arrangement are made for staff to certify that good or services were received in a good condition
- the exercise to clear out unused or invalid Direct Debits is completed

Appendix 3G School Audits Revisited

- payroll reconciliations are independent reviewed
- signed contracts have been compiled in one place and contracts register has been produced.

Sacred Heart Catholic Primary School

Results

Fully implemented	Substantially implemented	Partially implemented	Not implemented	Unable to test
12	3	3	4	1

Summary Findings

Overall, the School had made good progress in addressing the issues raised in the original report.

All the actions relating to the Governance aspect of the review had been fully addressed.

With regards to Information and Asset Management, there still needed to be better evidencing of what information has been destroyed and when as well as the reconciliation of new purchases to the Asset Register. Monthly spot checks of assets were planned to commence in February 2016. As no assets had been written off since the original audit, it was not possible to retest that the process for authorising this had been properly applied.

Further work was required to strengthen the School's Financial Management and Reporting arrangements.

The key areas the School still needed focus on included:

- arranging for audited private fund accounts to be presented annually to the Governing Body
- ensuring that proposed changes to supplier details are independently confirmed via a School instigated contact with a known company representative, as this is a high fraud risk area
- defining a contract management approach that clearly sets out roles, responsibilities and processes for managing contracts as well as the reporting arrangements to senior management and the governing body
- ensuring as part of the contract management approach, there is independent, documented sign off of all key stages in the contract letting process
- getting Board approval for income generating activities and their costs.

Appendix 3G School Audits Revisited

The Federation of Greenways Schools (now an academy)

Results

Fully implemented	Substantially implemented	Partially implemented	Not implemented	Unable to test / Closed
5	2	6	7	N/A

Summary Findings

The School had made limited progress in addressing some of the issues raised in the original report.

In order to strengthen the School's governance arrangements:

- a more robust process needed to be established to ensure Governing Body minutes were signed promptly
- the reviews of the Sickness Absence Policy and the Recruitment and Retention of Staff Policy needed to be undertaken.

At the time of the audit, the School was awaiting the revised Asset Condition Survey from Southend-on-Sea Borough Council, which was delayed due to Council staffing issues. Therefore the Asset Management Plan could not be finalised nor could an annual programme for preventive maintenance of the School infrastructure be finalised.

However very little progress had been made to implement the remaining information and asset management actions and none had been fully implemented. Therefore:

- regular 'weeding' exercises of both electronic and hardcopy information still needed to be undertaken and responsibility for this allocated
- the Business Continuity Plan still needed testing
- the work underway to combine the two previous Asset Registers onto the new DNA" system and covertly and overtly mark assets needed to be completed
- spot checks were still to be undertaken to confirm the inventory remained accurate and all assets could be accounted for
- a new equipment issue procedure note needed to be produced and issued to staff.

The remaining areas requiring attention with regard to financial management and reporting include:

- checking payments made to individuals for supplies of services against the HMRC's Employment Status Indicator to identify whether National Insurance and PAYE deductions were applicable
- considering whether to introduce online banking and BACS payment systems
- producing a complete listing of all current Direct Debits so the School could ensure it had signed copies of them all
- improving the arrangements for checking and then independently validating that requests to change supplier details were genuine

Appendix 3G School Audits Revisited

- providing documented evidence that key contractors performance had been reviewed and that they were delivering against the contractual requirements.

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Southend-on-Sea Borough Council

Agenda
Item No.

9

Report of Chief Executive

to

Audit Committee

on

18 January 2017

Report prepared by: David Kleinberg, Group Manager,
Counter Fraud & Investigation

Counter Fraud & Investigation Directorate: Status Report

Executive Councillor – Councillor Moring

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To update the Audit Committee on the progress made in delivering the Corporate Counter Fraud & Investigation Strategy for 2016/17.

2. Recommendation

- 2.1 **The Audit Committee notes the Counter Fraud & Investigation Directorate's performance to date.**

3. Performance

- 3.1 The work programme consists of three main strands:

- Assessing compliance with relevant national frameworks
- Delivering a proactive programme of counter fraud work
- Investigating allegations of fraud, theft, bribery, corruption and money laundering offences, reported to the Directorate.

- 3.2 The current status of each of these work streams is detailed in this report, supported by individual appendices.

- 3.3 **Appendix 1** outlines the flow of cases into the directorate for this year since 1st April 2016.

- 3.4 Significant progress has been made by the Directorate to recover the proceeds of crime. £123k has been recovered from a fraudster by the Directorate successfully using the Proceeds of Crime Act to obtain a confiscation order.

- 3.5 **Appendix 2** outlines some of the cases investigated by the Directorate including outcomes in different areas of the council where emerging threats are being seen, such as parking, disabled badge misuse and abuse of the Essential Living Fund.

- 3.6 The Directorate has had great success working with the Parking Service in tackling disabled badge misuse and fraud. A working relationship has been built up whereby Civil Enforcement Officers can refer suspected fraud directly to a designated Investigation Officer. This has seen quick time turnaround of misuse and fraud investigations, ensuring that appropriate action is taken while also ensuring the badge is returned to the rightful user in a short amount of time. This ensures that those in genuine need are still able to use the service.
- 3.7 The Directorate have recently completed a successful recruitment campaign, recruiting one Intelligence Officer and one Investigation Officer, both of whom will be based at Southend. The Intelligence Officer is now in post and the Investigation Officer has an anticipated start date of January 2017.

4. Proactive work programme

- 4.1 **Appendix 3** sets out the current status of all the activities proposed in the Strategy for the year. The main areas where work that the Directorate has focused on to date, given the investigative caseload and resources available, has been:
- Housing Tenancy fraud
 - Insurance fraud
 - Social Care fraud
 - National Fraud Initiative.
- 4.2 Operation Domus has now been launched, as detailed in the September 2016 report to Audit Committee. It is anticipated that the first partnership agreements will be in place and active by January 2017. A pilot run with one housing provider has been successful and has already identified a number of detected tenancy frauds.
- 4.3 The Directorate continues to work closely with Internal Audit where opportunities exist to share the expertise between the two functions, including guidance in strengthening the counter-money laundering practice in the Right-to-Buy process.

Fraud Awareness Training

- 4.4 The Directorate has delivered fraud awareness training across council departments. Each training event was tailored to the particular risks faced by the departments concerned.

5. Corporate Implications

- 5.1 Contribution to Council's Aims and Priorities

Work undertaken to reduce fraud and enhance the Council's anti fraud and corruption culture contributes to the delivery of all its aims and priorities.

- 5.2 Financial Implications

Proactive fraud and corruption work acts as a deterrent against financial impropriety and might identify financial loss and loss of assets.

Any financial implications arising from identifying and managing the fraud risk will be considered through the normal financial management processes.

Proactively managing fraud risk can result in reduced costs to the Council by reducing exposure to potential loss and insurance claims.

5.3 Legal Implications

The Accounts and Audit Regulations 2015 Section 3 requires that:

The relevant authority must ensure that it has a sound system of internal control which:

- *facilitates the effective exercise of its functions and the achievement of its aims and objectives*
- *ensures that the financial and operational management of the authority is effective*
- *includes effective arrangements for the management of risk.*

The work of the Directorate contributes to the delivery of this.

5.4 People Implications:

Where fraud or corruption is proven the Council will:

- take the appropriate action which could include disciplinary proceedings and prosecution
- seek to recover losses using criminal and civil law
- seek compensation and costs as appropriate.

5.5 Property Implications

Properties could be recovered through the investigation of housing tenancy fraud or assets recovered as a result of criminal activity.

5.6 Consultation: None

5.7 Equalities Impact Assessment: None

5.8 Risk Assessment

Failure to operate a strong anti fraud and corruption culture puts the Council at risk of increased financial loss from fraudulent or other criminal activity.

Although risk cannot be eliminated from its activities, implementing these strategies will enable the Council to manage this more effectively.

5.9 Value for Money

An effective counter fraud and investigation service should save the Council money by reducing the opportunities to perpetrate fraud, detecting it promptly and applying relevant sanctions where it is proven.

5.10 Community Safety Implications and Environmental Impact: None

6. Background Papers

- Fighting Fraud locally, The Local Government Fraud Strategy
- CIPFA's Code of Practice on Managing the Risk of Fraud and Corruption
- Association of Local Authority Risk Managers (ALARM) Publication: Managing the Risk of Fraud
- Audit Commission: Protecting the Public Purse: Fighting Fraud Against Local Government.

7. **Appendices**

- Appendix 1: Case Summary
- Appendix 2: Recent Case Examples
- Appendix 3: Pro-active Work Plan

Appendix 1 - Counter Fraud & Investigation Directorate Southend Borough Council Case Summary to December 2016

	Fraud Type				
Case Status	Housing Tenancy Fraud	Council Tax	Blue Badge	Other	Total

NB: Responsibility for investigating all Housing Benefit fraud transferred to the DWP on 2 November 2015. The Council no longer has any involvement in investigating benefit fraud.

Directorate Case Load					
Total Fraud Allegations Received (Between 01/04/16 – 06/12/16)	45	132	87	13	277
Under investigation**	41	128	68	10	247
Closed**	4	4	19	3	30

****These Figures represent the status of investigations conducted by the Directorate that commenced during 2015/16 but also those received in previous years but concluded in 2015/16.**

Outcomes Achieved					
Formal Caution	9	3	1	4	17
Prosecution Action	8	2	3	9	22
Tenancy Property Recovered	14	N/A	N/A	N/A	14
Right to Buy Closed	0	N/A	N/A	N/A	0
Blue Badge Recovered	N/A	N/A	1	N/A	1
Warning Issued	3	1	43	1	48
Disciplinary Action	0	0	0	2	2
No Further Action	33	47	6	38	124

Value of Proven Fraud re Closed Investigations

Prosecution	Formal Caution	Other Fraud Savings ¹	Properties Recovered
£43,669	£12,597	£24,295	14
Right to Buy Fraud Savings ¹	Tenancy Fraud Savings ¹	Money Recovered ²	TOTAL³
£0	£252,000	£123,181	£332,561

¹ Money saved by the Council through preventative action by the Counter Fraud Directorate

² Money recovered from criminals by the Counter Fraud Directorate

³ Total loss figure to the Council

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Appendix 2 – Recent Fraud Case Examples

This summary provides details of investigations that have been conducted by the Directorate since April 2016.

The Directorate is working across the Council to mitigate emerging fraud risks such as these detailed below to ensure there is continual business learning from detected outcomes.

Essential Living Fund

A referral was made to the Directorate alleging that a customer who received new white goods from the funds did not require them and was instead planning to sell them.

Intelligence Officers from the Directorate conducted internet investigations and identified that the customer had advertised the white goods for sale on a social media group. This had been done one day after they had been delivered to the customer's property.

Investigators interviewed the customer under caution who admitted to not requiring the goods. The goods were recovered and no loss to the Council was incurred.

This was a first offence and therefore a formal caution was issued to the customer.

Blue Badge Parking

A report of blue badge parking misuse was received by the Directorate. Officers from the Directorate immediately viewed the body worn video footage from the Civil Enforcement Officer. This enabled the Investigators to identify a vehicle and blue badge.

Investigators identified the person who was using the badge as someone different from the registered user. Investigators also managed to identify potential witnesses to the badge misuse and contact them. One of the witnesses was willing to provide a statement and commented how impressed they were that SBC were taking blue badge fraud seriously.

The suspect was identified and interviewed. They made some admissions in interview although did provide some mitigating circumstances.

An official Warning was issued to the suspect and the badge was returned to the service user.

Appendix 2 – Recent Fraud Case Examples

Housing Tenancy Abuse

The Directorate have worked with South Essex Homes (SEH) on two investigations where there has been insufficient evidence of fraud but where there is evidence of ongoing tenancy abuse and low level tenancy breach (where possession orders would not be granted by a civil court in the first instance).

As an alternative to costly court hearings, the Directorate have obtained information to assist SEH in applying strict monitoring conditions to two properties.

These conditions are meant to ensure that the low level breaches do not continue. These breaches include vacating the property for a period of time with an intention to return but without informing SEH, or taking in lodgers without consent.

It is hoped that the monitoring ensures that the breaches do not continue, where they do stronger evidence will be available to take possession action.

Appendix 3: Proactive Work Programme as at January 2017

Risk area	Tasks	Planned for	Current status
Housing Tenancy	Commence 'Operation Domus', the county-wide joint proactive drive to share data and intelligence on tenancy fraud.	Ongoing	A programme of work is now underway with all the housing providers and Council's around the County, led by the Directorate. Pilot work with one housing providers has proved successful
Right to Buy	Evaluate whether application processes can be strengthened to minimize the risk of fraud.	Ongoing	Joint working activity is now underway with Internal Audit to ensure to improve business process knowledge and build appropriate measures to reduce potential fraud.
Business Rates	Conduct a data matching exercise to identify possible misuse of exemptions claimed for commercial property, including 'Phoenix Companies'.	September 2016	This is delayed due to no national standard for NNDR matching. Research by CFID has identified a potential match service with a credit reference agency relating to small business relief. This is in its early stages and discussions are taking place
	Identify, from the data matching exercise, a tool that can be installed for use in the continual prevention of false exemption claims.	September 2016	
	Evaluate whether Business Rates processes can be strengthened to minimize the risk of fraud.	September 2016	
Council Tax	Evaluate whether Council Tax Discount and Exemption processes can be strengthened to minimize the risk of fraud.	Ongoing	A joint working arrangement has been established with the Revenues service in relation to this. This joint working has already identified various potential frauds and savings. Joint working has also resulted in the first Council Tax prosecution

Appendix 3: Proactive Work Programme as at January 2017

Risk area	Tasks	Planned for	Current status
Fraud Awareness	Introduce a formal, detailed intelligence alert system across all Council departments to inform services of immediate fraud risks.	Ongoing	Intelligence alerts are now being sent out to business areas
	Provide fraud awareness training to business areas	Complete	Training has been delivered to business areas
National Fraud Initiative, Data Matching Exercise	Investigate high level recommended data matches until the 2016 exercise is complete.	Will report progress made on quarterly basis	Awaiting new match set for January 2017

Commentary: CIPFA Survey on Local Authority and Police Audit Committees

Briefing from the CIPFA Better Governance Forum

November 2016

Background to the Survey

In 2011 CIPFA undertook a survey on audit committees in local authorities across the UK. The survey was sent out to heads of audits or heads of finance as key contacts for the committee and 161 responded. The survey provided interesting results on the structure and operation of audit committees in the sector and how effectively they were judged to be operating. Five years later CIPFA has repeated the survey but it has also extended the remit of the survey to cover the new police audit committees and to also seek the views of the chairs of the committee.

Over the five year period there have been a number of changes impacting on the role and operation of audit committees. Direct changes include:

- the [Local Government \(Wales\) Measure 2011](#) which placed audit committees on a statutory basis and requiring the appointment of at least one co-opted independent member
- the establishment of joint audit committees, from 2012 onwards, to advise the new police and crime commissioners and the chief constable, consisting of solely independent committee members
- a new position statement and publication from CIPFA in 2013 on audit committees, updating recommended practice
- the introduction of the Public Sector Internal Audit Standards in 2013 (updated April 2016) that defined the reporting relationships of internal audit
- passage of the [Local Audit and Accountability Act 2014](#) changing the way that external auditors should be appointed and defining the role of auditor panels
- more recently the [Cities and Local Government and Devolution Act 2016](#) requiring combined authorities to have an audit committee and include an independent member.

There have also been a number of indirect influences on the role of the audit committee. Perhaps most importantly there has been the continuation of budget cuts. This has put pressure on all aspects of local authority and police operations including internal audit and financial services and also on committee support. Managing the cuts has led many to explore alternative ways of service delivery including shared services, other collaborative arrangements, outsourcing and new arms-length bodies. This changing delivery landscape has resulted in greater complexity, higher risks and new challenges in obtaining assurance. All of these changes have a bearing on the work of the audit committee.

CIPFA has produced detailed briefings on the principal findings from the survey along with a commentary on the context. They highlight areas where there has been a change since CIPFA's survey in 2011, and also aspects that have remained constant. They also

cover new areas that were not included in the 2011 survey, in particular findings relating to police audit committees and findings about the working relationship with internal audit. For ease of reference the findings are being reported in separate briefings. While each briefing stands alone, taken together the briefings provide comprehensive insight into the operation, strengths and weaknesses of audit committee in local authorities and police. The briefings are:

- the structure, membership and operation of local authority audit committees
- membership, training and support for local authority and police audit committees
- police audit committees
- the effectiveness of local authority and police audit committees
- the interaction between audit committees and internal audit in local authorities and police.

Responses to the Survey

CIPFA aimed to send two survey invitations to each local authority or PCC area – one for the audit committee chair and one for completion by the head of internal audit (HIA) or PCC chief financial officer (CFO). An invitation to complete the surveys was sent to a named individual where CIPFA had the appropriate details. This meant that multiple responses from the same organisation could be avoided and we were able to track organisation type. Some organisations were not contacted to complete the survey where CIPFA did not hold the contact details of an appropriate individual.

The survey to HIAs and CFOs in PCCs was completed by 212 people. This represents a response rate of 53%. This is a similar level of response as for the 2011 survey where 161 responses were received. The chairs survey was sent to named contacts where the information was known and included chairs of local authorities and police chairs in England and Wales. A total of 95 responses were received, a response rate of 25%. While lower than the main survey, the survey response from chairs is adequate to support meaningful conclusions.

The table below shows the response rate for each organisation type.

	Response rate from heads of internal audit	Response rate from audit committee chair
English County	70%	27%
English District	46%	25%
English Metropolitan	58%	19%
English Unitary	56%	22%
London Borough	52%	21%
Northern Ireland	27%	–
Scottish Unitary	65%	–
Welsh Unitary	69%	10%
Local Authority Overall	53%	23%

	Response rate from CFO of PCC	Response rate from audit committee chair
Police	55%	40%

Total response rate:

53%

25%

CIPFA Commentary: Audit Committees and Accountability

On the one hand the results of the survey are reassuring. The questions on effectiveness do not identify widespread concerns. In areas such as providing support to internal audit the audit committees appear to be working well. However there are certain aspects that raise concerns about the ability of the audit committee to provide effective internal challenge in local authorities:

- The current system in local authorities of drawing the majority of members from elected representatives is vulnerable. This is not a criticism of councillors suggesting that they are not up to the job, as the evidence shows they can be. However there is a certain amount of 'luck' in finding sufficient councillors with the desired knowledge, experience and interest, or councillors who are willing to undertake the required training. Sometimes the system means that the audit committee just does not have enough of the right people. Efforts are being made across the sector to provide training but the committee members need to be willing participants. Resources may also be a barrier here too. The increase in the co-option of independent members shows that councils are actively trying to extend the capability of their committees, but the addition of one or two independents may not be a cure-all. And some councils have expressed concerns about their ability to attract suitable people. Despite these challenges the survey has highlighted some good audit committees with committed members and effective working relationships.
- Another area of concern is that the effectiveness of the committee in providing internal challenge is inconsistent. Holding managers to account on matters of internal control and risk management was considered to be less effective than providing support. For the committee to get to the heart of issues, ask difficult questions and make sure the right people are on hand to answer the questions again requires a high calibre of audit committee member. The importance of internal challenge is recognised by CIPFA's governance framework and its absence has been highlighted as contributory factors in recent governance failures in the local government sector.

While police audit committees have the advantage of being made up of independent members recruited specifically for the role, there are other aspects that potentially undermine their effectiveness. This has led to a certain amount of frustration on the part of audit committee members and those interacting with the committee. Our briefing on police audit committees identifies that relationships with either the PCC, chief constable or senior staff appear to be the biggest barrier to the effective operation of the committee in some areas.

Next steps

CIPFA has published the results of the survey for the benefit of audit committee members, heads of internal audit, chief financial officers and all those with an interest in supporting good governance. CIPFA also expects the findings to be of interest to external auditors and to others with an interest in public sector governance.

CIPFA will also be drawing the attention of the Department of Communities and Local Government and the Home Office to the findings, as the government departments responsible. CIPFA considers that the results raise issues for the effectiveness of current arrangements that should be considered in future policy and guidance.

CIPFA will also be taking into account the results to inform its own guidance to the sectors in the areas of governance, internal audit and audit committees.

For full details on the survey results go to CIPFA's detailed briefings. Each briefing contains recommendations for how the findings can be used to support improvement. The full list of recommendations is included here.

Recommendations

From the Effectiveness Briefing:

All audit committees should review their performance and seek feedback from those who regularly work with the committee or rely on its assurances.

Audit committees should identify any barriers to improving their effectiveness and seek to address them.

Those committees that do not already do so should consider producing an annual report to explain their role and demonstrate the value they have added.

All audit committees should ensure that they have a clear and accessible statement on the website that explains their role and helps stakeholders to understand their work and contribution.

From the Local Authority Briefing:

Authorities should review the size and make-up of the committee to see whether it is best suited to developing an effective audit committee. In particular consider:

- a. whether a smaller committee might help ensure a committee has sufficient members with knowledge, experience and interest
- b. whether co-opted independent members would add value by bringing relevant knowledge and experience to the audit committee.

Local authority audit committees should review their agendas and work plans to ensure that sufficient attention is given for assurance over the following areas:

- Value for money arrangements
- Partnerships and
- Collaboration issues.

Audit committee members should aim to provide constructive challenge and a focus on improvement, particularly with the senior managers responsible, when reviewing internal audit reports or risk reviews.

All audit committees should ensure that they have a clear and accessible statement explaining their role on the website to help stakeholders understand their work and contribution. An annual report on the work of the committee should also be published.

From the Police Briefing:

Audit committee members should work with police staff to undertake a knowledge and skills assessment, taking into account the CIPFA audit committee guidance and emerging developments in policing.

The audit committee chair should work with the PCC and Chief Constable to develop an action plan to address any knowledge and skills gaps amongst the committee and ensure arrangements are in place for regular updates and briefings.

Police audit committees should review their agendas and assurance frameworks to ensure that adequate attention is given to assurance over partnerships, especially given the current proposals in the Policing and Crime Bill for greater collaboration across blue light services.

The agendas of audit committees should include coverage of counter fraud and corruption risks, the effectiveness of counter fraud arrangements and strategy in accordance with the CIPFA guidance, Audit Committees Practical Guidance for Local Authorities and Police (2013 edition) and the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption (2014).

The PCC, Chief Constable, senior staff and the audit committee should review the terms of reference of the committee to ensure that it is consistent with the Financial Management Code of Practice and CIPFA audit committee guidance and that there is a shared understanding of the committee's role, where it can best add value and its place in the accountability structure for policing.

All audit committees should ensure that they have a clear and accessible statement explaining their role on the PCC's website to help stakeholders understand their work and contribution. An annual report on the work of the committee should also be published.

The PCC, the chief constable and senior staff, should aim to have a positive relationship with their audit committee and take advantage of the wider experience of police audit committee members, using their input to improve audit, risk management and internal control.

From the Internal Audit Briefing:

Heads of internal audit should evaluate whether their audit committees require further guidance or training on internal audit and the committee's role.

Heads of internal audit should seek regular feedback from the audit committee as part of their QAIP.

Heads of internal audit should note the suggestions made by the audit committee chairs in the responses to the survey and consider whether they apply to their own internal audit service.

From the Training Briefing:

For both local authority and police:

Audit committee members should work with officers to undertake a knowledge and skills assessment, taking into account the CIPFA guidance Audit Committees Practical Guidance for Local Authorities and Police (2013 edition) and emerging developments in the sector.

The audit committee chair should work with lead officers to develop an action plan to address any knowledge and skills gaps amongst the committee and develop an appropriate programme of training.

Ensure that the committee has access to support in the form of regular briefings on matters of relevance to the work of the committee and other developments that impact on the sector.

If you have any questions about the Better Governance Forum, our resources or future developments please do not hesitate to contact me.

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Appendix: analysis of respondents by region

	Response rate from heads of internal audit/PCC chief financial officers	Response rate from audit committee chairs (local authorities and police)
South East exc. London	51%	27%
Greater London	51%	21%
East of England	64%	18%
East Midlands	41%	20%
North East	53%	46%
North West	60%	29%
South West	42%	38%
West Midlands	48%	15%
Yorkshire & Humber	58%	33%
Wales	65%	12%
Scotland	65%	–
Northern Ireland	27%	–
Total	53%	25%

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CIPFA Survey on Local Authority Audit Committees

Briefing from the CIPFA Better Governance Forum

November 2016

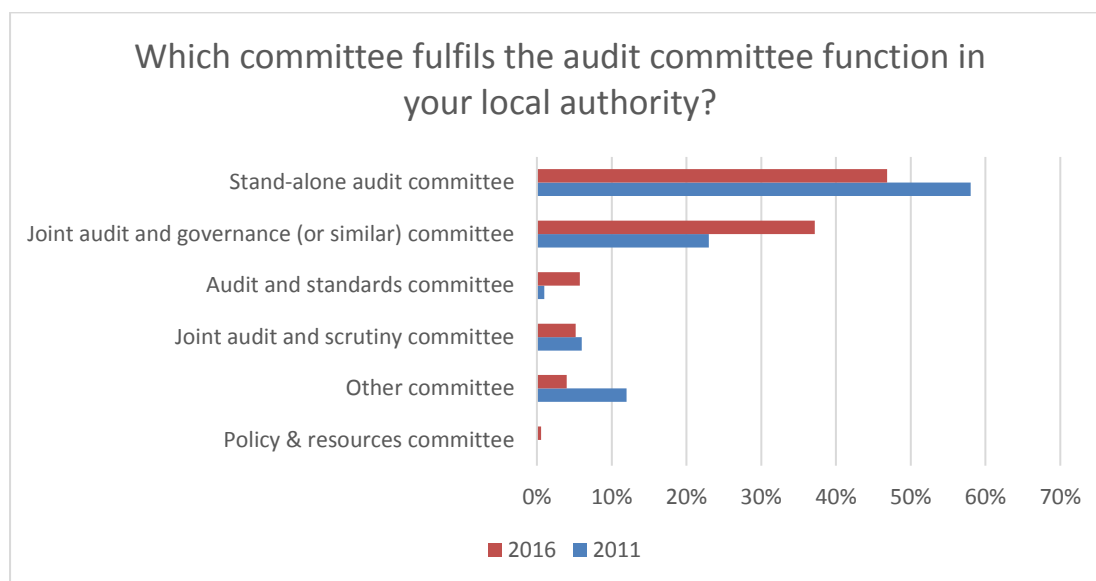
This briefing contains results from the survey on the structure, membership and operation of local authority audit committees. It is one of a series of briefings on the survey results, all of which are available to download from the CIPFA website.

The Structure and Composition of Local Authority Audit Committees

In the survey we asked local authorities about the body acting as their audit committee. The most common form was for a stand-alone audit committee (47%) followed by a joint committee (37%). One notable change since the 2011 survey is a significant decline in the number of stand-alone committees, down from 58%. One likely explanation for this is the amalgamation of committees to reduce costs. Although we didn't ask respondents to list the full functions of their joint committees, respondents did identify some of the areas audit committees included in their remit:

- risk management
- business continuity
- review of constitution and financial regulations
- debtor management
- health and safety
- HR policy referrals
- complaints
- council tax base
- boundary changes
- retrospective decisions on contracts.

Some of the areas listed above, such as debtor management, give the committee a broader scope than might be expected for an audit committee. While oversight of assurance on risk areas is helpful for the audit committee, where the committee starts to take on a decision-making role it becomes part of the internal control system. There was also a small increase in joint audit and standards committees, reflecting changes to the standards regime of local authorities.



A further structure question considered the reporting relationship of the committee. The vast majority (85%) of audit committees report directly to full council rather than via Cabinet or another committee. Two percent of respondents said their committee did not report anywhere, so their reporting lines may be unclear, which could undermine the effectiveness of the committee in raising issues and making recommendations.

Make-up of the Committee

There has been a shift in the number of members sitting on local authority audit committees. As the table below shows, there has been an increase in membership with the median size increasing from seven to nine. This could be a consequence of more joint committees, with the membership increasing to reflect the additional responsibilities of the committee or to achieve political balance.

Overall committee size:

Number of committee members	2016	2011
4 or less	0%	2%
5	2%	17%
6	11%	17%
7	21%	22%
8	15%	8%
9	17%	12%
10	10%	9%
11	8%	8%
12	3%	1%
13	3%	3%
14	1%	1%
15 or more	8%	1%

A larger committee size could make it more difficult to appoint members with the right knowledge and interest. This increase of the committee size is likely to increase the gap when council audit committees are compared to the private sector model for audit committees, where the committee is typically quite small. In the 2015 global survey carried out by KPMG, 76% of committees had only three or four members.¹

Chairs of audit committees highlighted some issues with a larger committee size and getting interested members:

- *I run a committee of very mixed abilities and unfortunately some are simply there to fill up the spaces. I find it annoying that some members volunteer for something they do not have the skills for and one which is a key committee. It certainly would not happen in the commercial world.*

Chair, English district council

- *We have a majority of committee members from the majority party, and they are largely there to defend the administration.*

Chair, London borough council

- *Audit seems to be like the kid... at school, always picked last to join the team, following last year's elections I had asked to remain as chair, however when my group were looking to fill committee posts we had travelled through 80% of the members before another individual agreed to join.*

Chair, English district council

- *One drawback to recruitment of good competent people to the Audit Committee is that such people are in demand for Cabinet posts and Chairs of Scrutiny Committees and recruitment of members to the Audit Committee with common sense, commitment and some financial knowledge leaves the Chairman fishing in a very small pool - often among newer members who have not served long enough for senior committee posts.*

Chair, English unitary council

There has also been a shift in the composition of the audit committees. The table below shows a comparison of the number of co-opted independent members on local authority audit committees. While 61% of committees still do not have an independent on board, this is a reduction from the 69% in 2011. There has also been an increase in the percentage with more than one independent on the committee.

¹ [2015 Global Audit Committee Survey](#) (KPMG, 2015)

Number of independent members on audit committees:

	2016	2011
None	61%	69%
1	14%	16%
2	17%	11%
3	4%	3%
4	2%	1%
5	1%	1%
6	0%	0%
7	1%	0%
8	0%	0%
9	0%	0%
10 or more	1%	0%

One factor affecting this change is the requirement for Welsh audit committees to include at least one co-opted independent but it is clear that other councils are making this choice as well: 45% of stand-alone audit committees have at least one independent member. Independent members can be helpful in supplementing the knowledge and experience of elected members on the committee. It is an area that can cause strong feelings, both positive and negative, and there can be practical difficulties in finding members of the desired calibre.

- *Having worked elsewhere independent members with governance experience are an invaluable resource. However in a very small authority it is difficult to attract these people.*

Head of internal audit, English district council

- *[While] there are some obvious benefits from co-opting suitably qualified independent members on to the audit committee, there is a reluctance to do this in my authority. Elected members are of the view that they have been democratically elected by the public and therefore have a vested interest in ensuring that the Council maintains an effective system of governance, control and risk management.*

Head of internal audit, English unitary council

- *I would strongly advocate the maximum number of independent/co-opted members a council can stomach! It demonstrates a commitment to challenge and openness.*

Head of internal audit, English metropolitan council

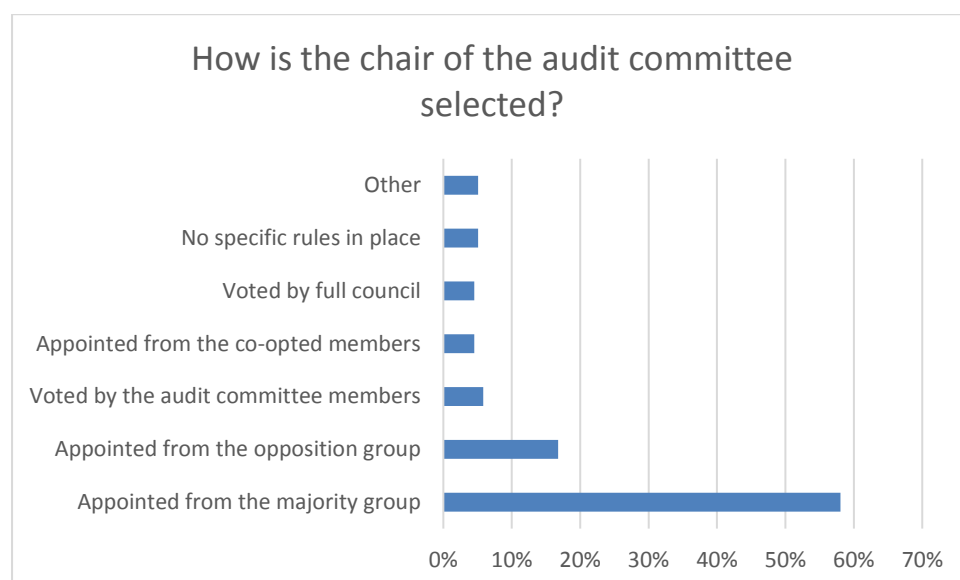
Another change since 2011 is that there has been a reduction in the number of audit committees that include a member of the executive board or cabinet. In 2011 34% of audit committees featured at least one member. In 2016 only 25% of respondents included executive members on their audit committees. This trend is consistent with CIPFA's recommendations on the importance of the audit committee being able to challenge constructively and hold to account. Where the committee is not able to do this then there may be concerns about the committee's effectiveness.

- *The leader of the council appears to control the audit committee which undermines its core principle of objectivity.*

Chair, London borough council

Selection of the Chair

The chair of the committee plays an important role, keeping the committee on track and focusing on the key issues. In practice whether or not a chair is effective will not be determined by how the chair is selected, but it may be a factor in ensuring that the committee operates in a non-political way. We asked how the chair was selected and it is clear that the vast majority of councils are appointing the audit committee chair in the same way that other committee chairs are appointed – nomination by the majority party. A significant minority do make a point of nominating an opposition member however, to reinforce the independence of the committee from the executive. There are also a small number of committees chaired by co-opted independent members.



Overall 92% of committees are chaired by elected members with 8% chaired by co-opted independents. This is a similar level to the 2011 results; 9% of committees were chaired by co-opted independents in 2011. One notable change since the 2011 survey is that fewer committees are chaired by a member who is also a member of the cabinet or executive. In 2011 9% of committees had executive member chairs and in 2016 this had fallen to 3%.

Number of Meetings

There has been no change in the average number of meetings by audit committees: five meetings per year in 2016 and in 2011. Looking at the profile in the table below there are some moves to fewer meetings. This could be a result of pressure to reduce the number of meetings as a way of reducing costs. Other changes might have led to an increase in the number of meetings, for example as the risks to the organisation increase, audit committee business could expand and there may be pressure for more meetings. Additionally where audit committees take on additional functions one might expect an increase in the number of meetings. However the prevailing pressure at the

moment seems to be a downward pressure on the number of meetings, although it is still unusual for the number of meetings to be less than four.

Comparison of how many times audit committees are meeting each year:

Number of meetings in a year	2016	2011
1 or 2	0%	0%
3	3%	4%
4	45%	35%
5	27%	27%
6	17%	21%
7	3%	4%
8	1%	3%
9	2%	3%
10 or more	1%	4%

Audit Committee Agendas

The respondents showed that the latest CIPFA guidance is in use across the sector. Forty two percent of heads of internal audit said that their committee terms of reference were strongly aligned to the CIPFA position statement and a further 52% said they were aligned. Unsurprisingly therefore most audit committee agendas covered the core functions of an audit committee as set out in the CIPFA position statement:

- head of internal audit's annual opinion and annual report (99%)
- external audit plan (99%)
- annual audit letter from external audit (98%)
- review of the annual governance statement (97%)
- approval of the internal audit plan (97%)
- internal audit performance reports (96%)
- follow up of agreed audit recommendations (91%)
- internal audit reports on audits completed (91%)
- review of effectiveness of the risk management arrangements (89%)
- reviews of governance arrangements or action plan (87%)
- review of the accounts prior to approval (87%)
- annual governance report (ISA 260) (81%).

Other areas covered by a majority of audit committees included:

- review of the robustness of mitigations in place for key areas of risk (79%)
- counter fraud strategy and performance against the strategy (79%)

- results of fraud analysis and data matching initiatives, including the National Fraud Initiative (77%)
- assurance framework (74%)
- approval of the accounts (74%)
- reports on fraud investigations completed (70%)
- treasury management strategy pre-approval (68%)
- review of treasury risks and controls (57%)
- counter fraud risk assessment (57%).

There are some core functions identified in the CIPFA position statement that are only considered by a minority of audit committees however:

- reviews of value for money or best value arrangements (41%)
- assurance statements on the council's partnerships (23%).

Value for money and best value arrangements were given a higher profile in the latest CIPFA guidance but in comparison to the 2011 survey there has been a small decline in the number of audit committees including this on their agendas. Forty eight percent included it in 2011. This is surprising given that resource pressures have increased over that time. One possible explanation is that other council committees are devoting additional attention to this area instead.

There has been little change in the approach to assurance over partnerships: a small increase from 19% to 23%. Again the trend over the last five years has been for increased complexity in service provision with a growth of collaborative arrangements so one might have expected this to have increased in profile on the audit committee agenda. One audit committee chair clearly already gave this area particular prominence:

- *The committee has a responsibility for overseeing "partnership" governance arrangements for the council as a specific brief. We feel this is an important area for development in all councils. It raises different issues from conventional service delivery for how internal controls operate and how council continues to obtain assurance.*

Chair, English unitary council

Thirty eight percent of audit committees also included reports from their appropriate audit regulator (National Audit Office, Audit Scotland, Wales Audit Office and the Northern Ireland Audit Office) which suggests a willingness to keep abreast of wider developments in public financial management and governance.

Interaction with the Committee

We asked the chairs of audit committees how satisfied they were with the conduct of meetings and whether they had access to the right people. For councils chairs were very positive:

	Yes	In part	No
The right people are in attendance to answer our questions	89%	8%	3%
We have a work programme that includes our areas of concern	82%	16%	1%
We have sufficient time at meetings to discuss the key issues	93%	7%	0%

We also asked about which officers were attending the audit committee meetings and we identified that heads of internal audit and chief financial officers (or deputies) were attending almost every meeting on average. In contrast chief executives were less likely to attend: 58% of respondents said that the chief executive did not attend a single audit committee meeting during 2015/16. The average attendance rates are shown below:

	Average attendance at audit committee meetings
Head of internal audit (or deputy)	97%
Chief financial officer (or deputy)	95%
Strategic directors	37%
Chief executive	24%

While this shows that the committee is receiving strong support from the internal audit and finance teams, it is perhaps disappointing that other senior managers engage less frequently with the committee. Agenda items such as the annual governance statement or the review of key areas of risk to the organisation might be expected to benefit from the attendance of the chief executive or strategic directors.

We also asked how effective the committee was in respect of reviewing the risk mitigations in place for key areas of risk and for challenging governance, risk and control matters. Results are shown in the table below for both heads of internal audit and chairs:

How effective do you think your audit committee is in regard to the following?:

	Heads of internal audit		Audit committee chairs	
	Very effective	Quite effective	Very effective	Quite effective
Challenging governance, risk and control matters	31%	58%	49%	47%
Reviewing the risk mitigations in place for key areas of risk	22%	50%	38%	55%
Following up outstanding actions or improvement plans	41%	49%	51%	43%

The input of the committee to the review of effectiveness of risk management and holding managers to account was raised by respondents as an area for improvement. We asked heads of internal audit how the committee could better support internal audit and the need for the committee to challenge more and hold managers to account was the comment made most often. Examples are below:

How else do you think your audit committee could better support internal audit?

- *The committee could assist internal audit in requiring senior managers to account for their arrangements for governance and internal control. Having to account to committee may encourage managers to consider their arrangements in a more systematic way and to account for failures.*
Head of internal audit, English district council
- *Not being afraid to hold senior officers/directors to account.*
Head of internal audit, English county council
- *Committee members need to realise that when managers are called to committee to account for poor performance that their challenge should be more robust.*
Head of internal audit, Welsh county borough council

The issue of audit committee effectiveness is explored further in a separate briefing on the survey results. This can also be downloaded from the CIPFA website.

Conclusions

The survey has shown some significant changes since 2011 in some areas: the reduction in stand-alone audit committees and the increased membership size. Potentially these trends make it more challenging to develop an effective audit committee. At the same time there has been a small increase in the number of audit committees including a co-opted independent member which is a positive development. The issues of training and support for audit committee members is considered in a separate briefing.

The audit committees are considered to be positive and supportive of internal audit and many are held to be effective in their core roles. However, in some areas there is room for improvement. More audit committees could take on board the CIPFA guidance and include coverage of value for money and partnerships in the agendas. They could do more to hold to account, providing internal challenge and demonstrating improved accountability. More details and comparisons with police audit committees can be found in the companion briefings on the CIPFA website.

Recommendations

1. Authorities should review the size and make-up of the committee to see whether it is best suited to developing an effective audit committee. In particular consider:
 - a. whether a smaller committee might help ensure a committee has sufficient members with knowledge, experience and interest
 - b. whether co-opted independent members would add value by bringing relevant knowledge and experience to the audit committee.
2. Local authority audit committees should review their agendas and work plans to ensure that sufficient attention is given for assurance over the following areas:
 - Value for money arrangements
 - Partnerships and
 - Collaboration issues.

3. Audit committee members should aim to provide constructive challenge and a focus on improvement, particularly with the senior managers responsible, when reviewing internal audit reports or risk reviews.
4. All audit committees should ensure that they have a clear and accessible statement explaining their role on the website to help stakeholders understand their work and contribution. An annual report on the work of the committee should also be published.

Further briefings on the results of the audit committee survey are available to download from the CIPFA website. The recommendations in these briefings should be read alongside those above:

- Commentary and Executive Summary, CIPFA Survey on Local Authority and Police Audit Committees
- CIPFA Survey on Police Audit Committees
- Training and Support for Local Authority and Police Audit Committees
- The Effectiveness of Local Authority and Police Audit Committees
- Internal Audit and Audit Committees in Local Authorities and Police.

If you have any questions about the Better Governance Forum, our resources or future developments please do not hesitate to contact me.

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CIPFA Survey on Local Authority and Police Audit Committees: Training and Support

Briefing from the CIPFA Better Governance Forum

November 2016

This briefing contains results from the survey on the training and support provided to local authority and police audit committees. It is one of a series of briefings on the survey results, all of which are available to download from the CIPFA website.

Experience of Committee Members

The very different models of audit committees in local authorities and police mean that the experience and knowledge of those coming on to the committee can be very different. Local authority committees are primarily made up of elected representatives and some have one or two additional co-opted independents. While some elected representatives have relevant knowledge and experience to bring to the role, this isn't always the case. Sometimes only one or two members have knowledge and experience in areas such as financial management, audit or risk and only the co-opted member may have had previous audit committee experience. In contrast police members are all recruited to the role and bring with them previous experience and knowledge.

We asked respondents whether their audit committee members had relevant experience.

Do the audit committee members have relevant financial, audit or governance experience?

	Yes	In part	No
Local authorities	35%	59%	6%
Police	89%	11%	0%

Clearly the police audit committees have a much stronger depth of experience amongst their members. However most audit committees in local authorities have at least some members with relevant experience.

Interest of the committee members is as important. From the comments received it is clear that there are some engaged and interested audit committee members, but it can be difficult to ensure that local authority committees have this.

- I find our audit committee to be extremely interested and supportive of the work of the internal audit team.*

Head of internal audit, English county council
- There are currently a set of interested councillors on the committee who are quite happy to be real critical friends, and not too party political.*

Chair, English district council
- Not a committee that you can just name people to sit on; they have to want to understand this very important area.*

Chair, English unitary council

- *A lot of people find audit as dull as dish water; fortunately I don't and I try to liven up the meetings.*

Chair, English district council

Knowledge and Skills

Audit committee members need training to help them undertake their role effectively. Where committee members have relevant specialist knowledge or experience, the training may need to focus on familiarisation with the organisation and the sector context and keeping up to date with new developments. Where a committee is inexperienced then there is a wide range of topics over which it is essential that they have a basic understanding. As well as knowledge, more practical skills are also required.

The CIPFA publication *Audit Committees: Practical Guide for Local Authorities and Police* (CIPFA, 2013) sets out a knowledge and skills framework for audit committee members. This includes details of the core knowledge required by members and specialist knowledge that is also of benefit to the committee.

In the survey we asked whether the respondents had used the CIPFA guidance when assessing training needs. From the responses it is clear that the guidance had been used to some extent across most authorities and police.

Have training needs of all audit committee members been identified against the key knowledge areas as described in the latest CIPFA guidance?

	Yes	In part	No
Local authorities	39%	42%	19%
Police	74%	26%	0%

The stronger response from the police sector may be because the guidance came out in 2013 shortly after the audit committees were being established and trained following the PCC elections in November 2012.

Training

In the survey we asked all respondents whether training had been provided. As well as splitting the results between local authorities and police we can also present the results for the committee chairs separately from those of the head of internal audit (local authority) or CFO for the PCC (police).

Local authorities:

Has training been provided to meet the identified needs?

Respondent:	Yes	In part	No
Head of internal audit	45%	50%	5%
Chair of audit committee	62%	26%	12%

Police:

Has training been provided to meet the identified needs?

Respondent:	Yes	In part	No
Chief financial officer for PCC	58%	42%	0%
Chair of audit committee	53%	47%	0%

There is greater consistency in the police results than there is in the local authority results. Whilst some variation is to be expected, the perceptions around training perhaps need to be explored at the local level:

- Are there knowledge areas that have not been covered by the training provided?
- Do audit committee members accept the need for training?
- Has a proper evaluation of training needs been carried out?

Some of the comments made by respondents to the report highlighted the efforts some authorities have made to deliver training and some of the difficulties they have experienced.

- *At each audit committee meeting we ensure members are given a presentation on a topic of interest or service area/function of their choice to add variety to the agenda and enable them to learn more about council activities and services, in addition to usual briefings on emerging developments in risk and governance issues.*

Head of internal audit, English district council

- *We need members with a more than a basic level of understanding. Turning up to training sessions would help.*

Head of internal audit, English unitary council

- *The committee has not received proper training so far and so there is a lack of understanding of their role and how they should be working with internal audit and external audit. There is training planned to try to address the issues.*

Head of internal audit, English district council

Chairs of audit committees also recognised the need for their committees to be trained and kept up to date.

- *Member training should be mandatory.*

Chair, English metropolitan district council

- *External training should be offered in house on a regular basis. Internal training is all well and good but there needs to be more input from impartial professionals who can provide committee members with the guidance as to what they should be looking for in audit terms.*

Chair, English unitary council

- *I am embarrassed with the lack of skills and qualifications of many of our members. This despite a full and effective training programme being available. PLEASE do what you can to enforce obligatory training.*

Chair, English district council

- *Audit committees in local government would operate more effectively, if the skills and experience of members were formally captured and individual training programmes developed.*

Chair, English district council

CIPFA's guidance on audit committee does state that authorities: "should establish a programme of support that involves induction training, regular briefings and updates as well as formal training programmes". It is up to each authority to determine appropriate training provision.

Briefings and Support to the Committee

As well as formal training, audit committee members need access to briefings and updates on new developments in the organisation and on technical and professional matters that will feature on the committee agenda. We asked chairs about their access to this wider support.

Do members of the audit committee have access to any of the following resources and support?

	Local authority chairs	Police chairs
Regular training on relevant subjects	62%	47%
Regular briefings on relevant subjects	82%	76%
Regular briefings or updates on developments affecting the council / police	84%	76%
None of the above	5%	12%

More chairs have access to briefings than formal training and a high percentage at both local authorities and police have access to updates on organisational developments. A small percentage consider they don't have access to briefings or support at all which is of concern.

CIPFA Better Governance Forum subscribers have access to the weekly governance newsletters and three issues of Audit Committee Update each year. They can also access

other resources on the website directly if they choose. To access these visit the [Better Governance Forum website](#).

Chairs of local authority audit committees in particular may need additional support if they are to be effective in their role.

- *It has taken me a couple of years to understand what I need to be doing as chair of this committee and gain confidence to do it. Thank goodness for good officers supporting me.*

Chair, English metropolitan district council

Barriers to Improvement

We also asked respondents to identify the barriers to improving their audit committee and those linked to ability and training of audit committee members struck a chord for a number of respondents, both officers and chairs.

Local authorities:

Barriers identified by respondents	Heads of internal audit	Chairs	Rank
Limited knowledge or experience of members	38%	39%	1
Lack of awareness of good practice	14%	21%	3=
Lack of resources for training	13%	21%	5
Committee members lack interest in audit matters	11%	18%	6=
Inexperienced chair	10%	4%	9

The ranking reflects the barriers identified most by both officers and chairs combined.

Police:

Barriers identified by respondents	CFO of PCC	Chairs	Rank
Limited knowledge or experience of members	0%	12%	5
Lack of awareness of good practice	0%	0%	—
Lack of resources for training	6%	12%	4
Committee members lack interest in audit matters	0%	0%	—
Inexperienced chair	0%	0%	—

Comparing local authority and police responses it is clear that issues of interest, knowledge and experience are much less acute for police. This is not surprising given the

make-up of the committees. It is interesting to note that chairs of police committees did respond more strongly than the CFOs, perhaps indicating their awareness of a lack of knowledge of policing matters and their need for continuous professional development.

For local authorities a lack of knowledge and experience amongst members is the number one barrier identified by both heads of internal audit and chairs. Looking back at the 2011 survey when the same question was asked, this was also the greatest barrier to improvement identified by heads of audit in local authorities. Then it was identified by 50% of respondents. So while it is still a significant issue to address there has definitely been some improvement since 2011.

- *The key problem is the lack of financial knowledge of some members. Those with knowledge make up for this but there is a danger that a few dominate the procedures while the rest sit in silence.*

Chair, English district council

- *As an independent voluntary chair it is finding time to ensure I am briefed and able to deliver my role effectively.*

Chair, English metropolitan district council

Committee Size

One of the findings noted in the local authority briefing paper was that the average size of audit committees had grown since 2011. This may be as a result of audit committees taking on additional roles. It could be as a result of maintaining political balance. It may be more difficult to achieve the desired level of knowledge and interest in a larger committee. Since one of the attributes of an audit committee is that it should be apolitical, councils could consider waiving the political balance rules in order to establish a committee of a smaller size so that membership can be determined by aptitude rather than party groupings. Consideration of this would have to take into account whether the committee operated as an advisory committee or was taking delegated decisions.

Conclusions

Across police the appointment of independent audit committee members has ensured that there is access to much greater depth of knowledge and experience than in the local authority sector. While the CFOs for the PCC did not identify knowledge or training as a barrier for their committee, police chairs were more likely to identify this as an issue. The chairs were also less likely to say that they had access to briefings and other support than the chairs of local authority committees.

The limited knowledge and experience of some local authority committee members remains the biggest barrier identified, although this has reduced since 2011. From the results and comments made by heads of audit and chairs it is clear that most authorities have made efforts to provide training and support. Despite this some members appointed to audit committees lack interest in the work of the committee or have only limited knowledge or expertise. There are clearly some enthusiastic audit committee chairs out there and their commitment and contributions should be applauded.

Recommendations

For both local authority and police:

1. Audit committee members should work with officers to undertake a knowledge and skills assessment, taking into account the CIPFA guidance *Audit Committees*

Practical Guidance for Local Authorities and Police (2013 edition) and emerging developments in the sector.

2. The audit committee chair should work with lead officers to develop an action plan to address any knowledge and skills gaps amongst the committee and develop an appropriate programme of training.
3. Ensure that the committee has access to support in the form of regular briefings on matters of relevance to the work of the committee and other developments that impact on the sector.

For local authorities:

3. Authorities should review the size and make-up of the committee to see whether it is best suited to developing an effective audit committee. In particular consider:
 - a. whether a smaller committee might help ensure a committee has sufficient members with knowledge, experience and interest
 - b. whether co-opted independent members would add value by bringing relevant knowledge and experience to the audit committee.

Further briefings on the results of the audit committee survey are available to download from the CIPFA website. The recommendations in these briefings should be read alongside those above:

- Commentary and Executive Summary, CIPFA Survey on Local Authority and Police Audit Committees
- CIPFA Survey on Local Authority Audit Committees
- CIPFA Survey on Police Audit Committees
- The Effectiveness of Local Authority and Police Audit Committees
- Internal Audit and Audit Committees in Local Authorities and Police.

If you have any questions about the Better Governance Forum, our resources or future developments please do not hesitate to contact me.

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CIPFA Survey on Local Authority and Police Audit Committees: Effectiveness

Briefing from the CIPFA Better Governance Forum

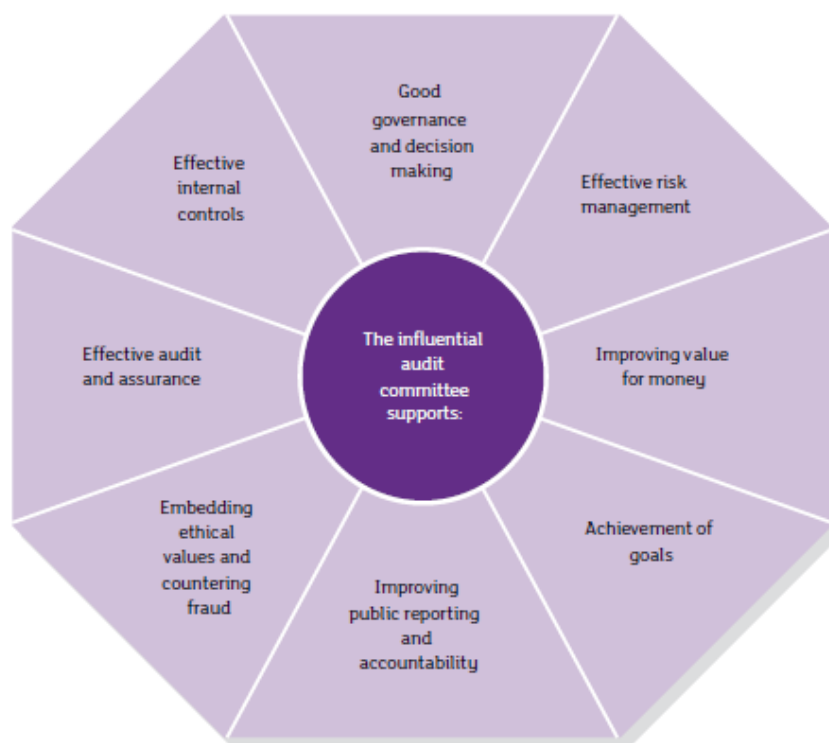
November 2016

This briefing contains results from the survey on the views on effectiveness of local authority and police audit committees. It is one of a series of briefings on the survey results, all of which are available to download from the CIPFA website.

Assessing Effectiveness

The survey did not contain any metrics to identify the relative level of effectiveness of the committees. It asked for views of effectiveness from the differing perspectives of the audit committee chair and the head of internal audit (HIA) for the local authority or chief financial officer (CFO) for the police and crime commissioner (PCC). The results therefore depend on the perceptions of respondents, but they do enable us to draw conclusions on the activities of the committees and where they are most successful.

Audit committees add value to their organisations by supporting improvement and highlighting areas of concern. Their operations are typically focused on a range of objectives concerned with internal control, governance, risk and audit. In the CIPFA publication *Audit Committees, Practical Guidance for Local Authorities and Police* (CIPFA, 2013) this was demonstrated in the following diagram:



Self-assessments

As part of the survey we asked how many audit committees had undertaken a self-assessment in the past year, either internally or externally facilitated. Few committees had had an external evaluation: 6% of local authorities and 5% of police. A much higher proportion had undertaken an internal self-evaluation however: 50% of local authorities and 68% of police. Such reviews should help organisations to evaluate the committee's success in fulfilling its terms of reference, meeting expectations and adding value.

Depending on the objectives of the review there are resources available to support self-assessment including the CIPFA publication. From the comments made it has assisted some organisations.

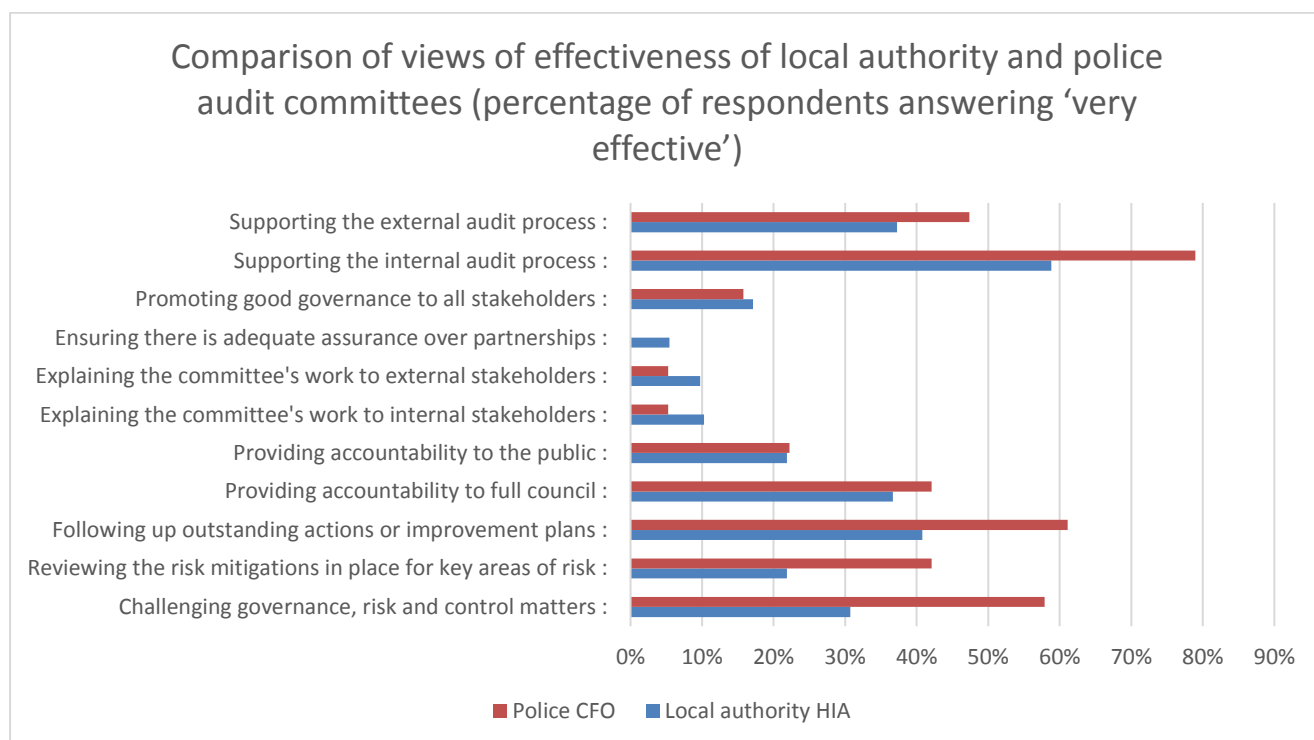
- *CIPFA guidance and the PSIAS are very helpful in persuading the organisation as to 'the art of the possible' and the roles that the audit committee, and audit team, can undertake on behalf of the organisation.*

Head of Internal Audit, English metropolitan district council

Views on Effectiveness

We asked all respondents how effective they thought the audit committee was on a range of areas. This enabled us to contrast the views of the audit committee chairs with those of the HIA or CFO. For the HIA we were also able to compare the views with those from the 2011 survey which asked a similar question.

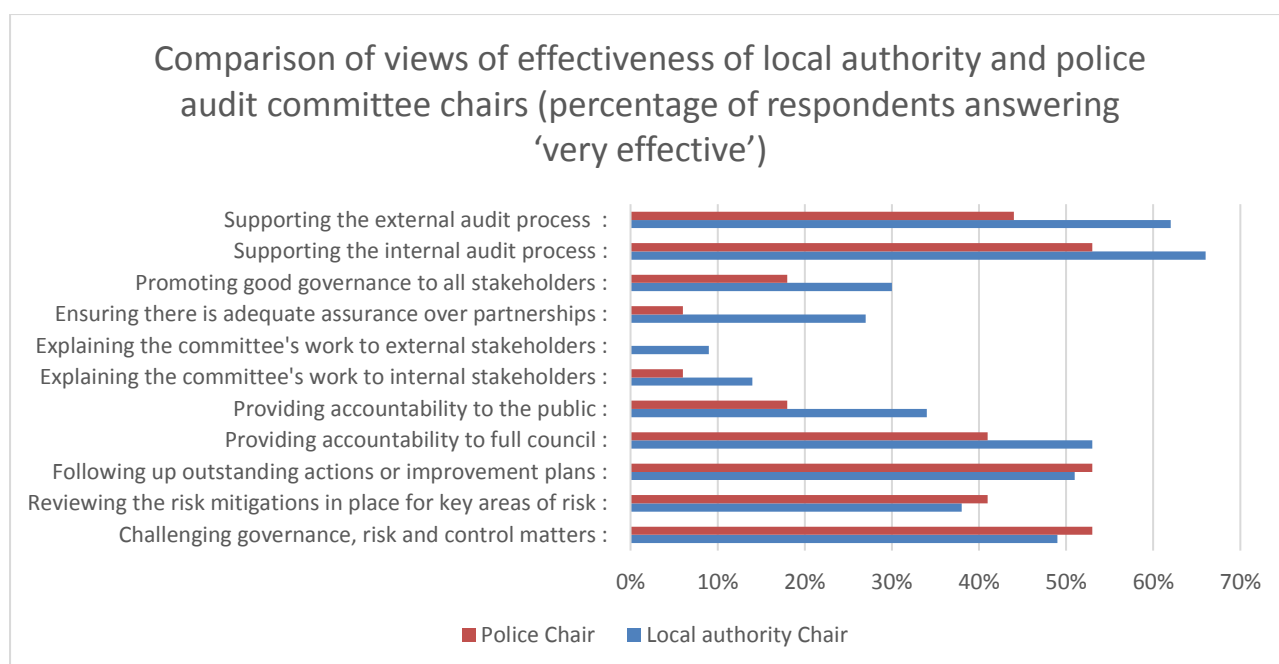
In the 2016 survey we can compare the views of effectiveness of police audit committees with local authority ones. Since the committees are constituted in very different ways, with the police committees having a membership of appointed independent members and local authority committees being primarily elected representatives, the survey presents a unique opportunity.



Based on the perceptions of key officers interacting with the audit committee, it would appear that police audit committees are more likely to be judged as “very effective” than local authority audit committees are.

In comparison to the local authority responses there is a similar profile of stronger and weaker areas, but overall the police audit committees seem to score more highly. One area where the police audit committee is considered to be more effective than the local authority equivalent is when reviewing the risk mitigations in place for key areas of risk. Twenty two percent of local authority HIAs scored this very effective. Forty two percent of police CFOs viewed their committees to be very effective.

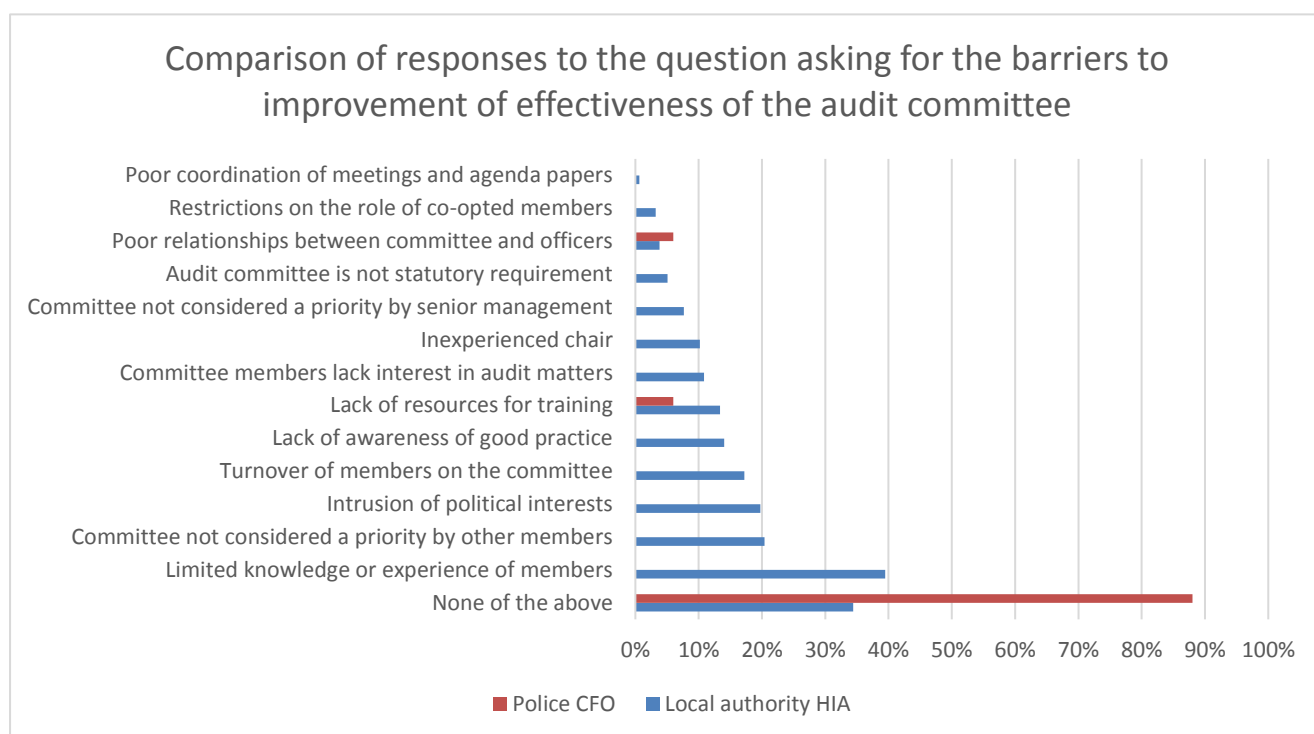
There is not the same distinction between the views of chairs however. Local authority chairs are more positive than police chairs about their own effectiveness.



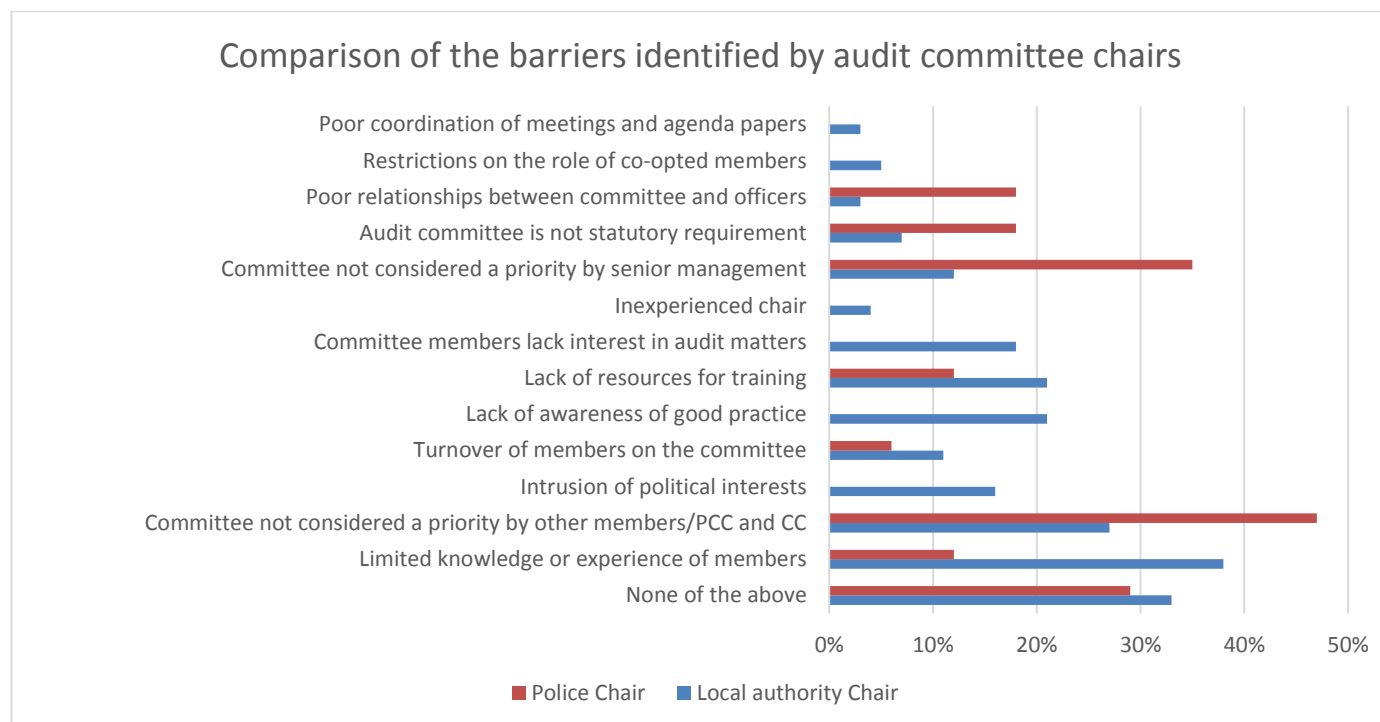
One possible explanation for the differing perception is that police audit committee chairs may have previous experience of audit committees in different sectors against which they can compare their experience of the police audit committee. The local authority chair may not have other experience.

Barriers to Effectiveness

When comparing the responses to the question about barriers to effectiveness, local authority HIAs are far more likely to identify one or more barriers to the improvement of their audit committee than police CFOs.



We also asked the same question of the chairs of the committees. Here the results are not quite so stark, but fewer barriers are identified by police audit committee chairs. It should also be noted that the principal barriers for police are different to those of authority committees.



So, taking the evidence on views of effectiveness and barriers together, is there sufficient evidence to say that the police 'system' for audit committees is more effective than that of local authorities?

Before drawing any firm conclusions it is worth emphasising again that the survey can only collect the views of effectiveness, not hard evidence. Certainly the police approach does overcome the major barrier to effectiveness faced by local authority audit committees: the limited knowledge and experience of the membership. However the police committees are not without issues; a committee made up solely of independent members has the disadvantage of not being close to the organisation, and being less familiar with the new developments, challenges and approaches of that body.

It can also mean that relationships can be more difficult to establish and maintain. If we look at the barriers identified by police chairs they are not to do with knowledge and training but are around relationships and how the committee is positioned in relation to the PCC and chief constable. Certainly there appears to be some tension between the committee and senior managers or the PCC and chief constable in some committees.

- *The audit committee has limited/no power. Recommendations of committee to PCC and CC ignored. CC and PCC have little or no interest in the Committee – fail to attend meetings. Came to accounts meeting in the third year on the insistence of the committee.*

Police chair

- *The joint audit committee is not an audit committee in the normal sense in that it has no powers other than resignation en masse. Therefore everything has to be done by negotiation. This frustrates the committee members and all have indicated that they will only complete one term of office. Individuals with the requisite knowledge and understanding to fulfil the role do not wish to have responsibility without power. The remuneration is poor for the responsibility involved.*

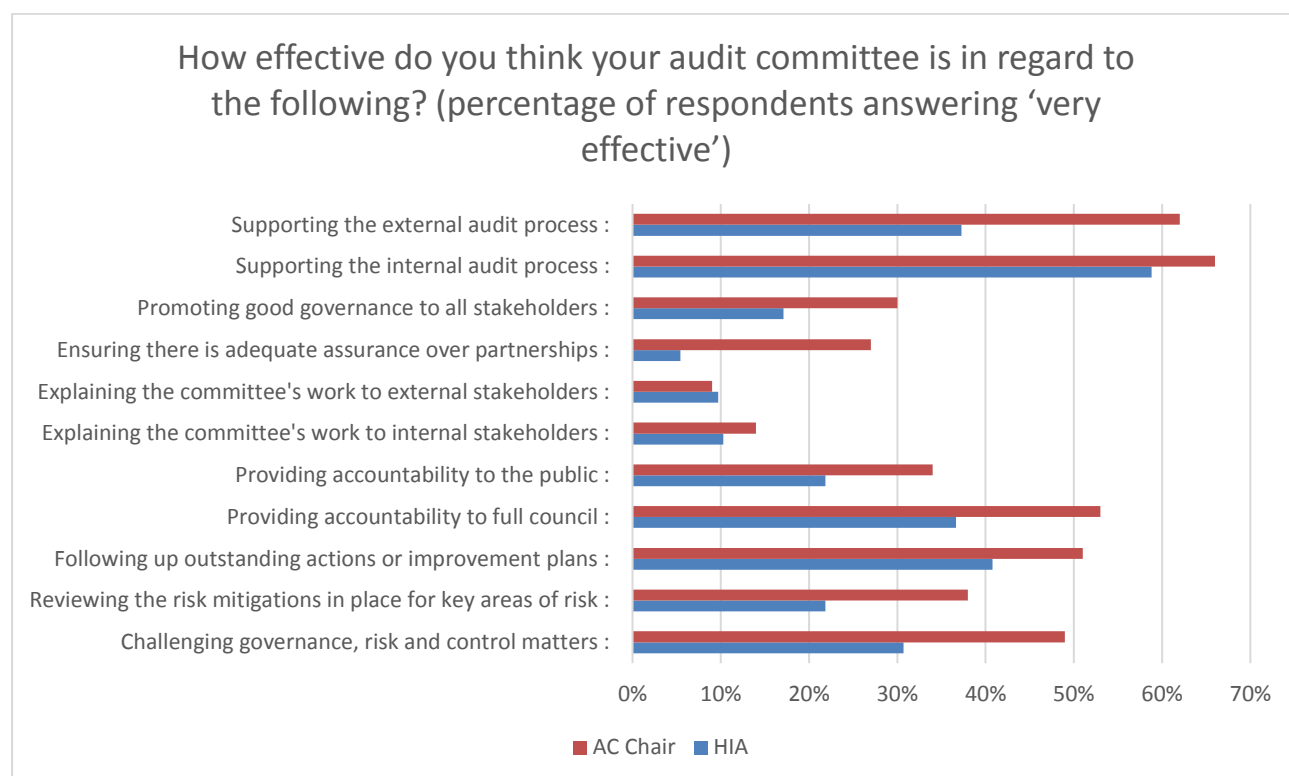
Police chair

- *An issue we have is that the Executive has been resistant to our receiving information in a timely manner. Key decisions are taken and we are informed as an afterthought, beyond the point at which any advice could be said to be useful. During the last year it has been particularly difficult to develop/maintain a productive working relationship with the PCC and the Chief Constable.*

Police chair

Overall there are disadvantages as well as advantages of an audit committee consisting solely of independent members. To take full advantage of their knowledge and experience, care should be taken to develop relationships and ensure good communication. Equally, committee members do need to understand the specific requirements of the sector and where the committee needs to operate in a different way to other audit committees that the members may have experience of.

A Detailed Look at the Local Authority Results



In almost every indicator the view of the chair was more positive than the view of the HIA, markedly so in some cases. This might indicate that chairs are perhaps over-confident about the success of their committees. Even so there are very good results here. Fifty nine percent of HIAs said that their audit committee was "very effective" in supporting the internal audit process and a further 37% said they were "quite effective". Forty one percent of HIAs considered that the committee was "very effective" in following up on outstanding actions and improvement plans with a further 49% considering them to be "quite effective". From comments made some HIAs were very positive about the support they received from the audit committee:

- The support from the audit committee is first class and it is difficult to identify how it could better support the work of internal audit. The committee is focused on addressing control issues and making a difference in terms of how the Council ensures that it provides value for money.*

Head of internal audit, English unitary council

One area where there was quite a big gap in the perceptions of the HIA and the chair was in response to 'Challenging governance risk and controls matters'. Thirty one percent of HIAs judged their committees to be "very effective" against 49% of chairs. Several HIAs made comments that this is an area where they would like to see an improvement.

- The committee is very good at calling managers to account but does not always use the full range of questioning skills to establish and challenge them to the level of detail required to explore fully the responses provided. It is getting the balance right between examining the facts in a way to engage and inform the officers,*

without feeling that they are publically intimidating or embarrassing the managers. When the committee are challenging the managers directly, they sometimes turn to the auditor to provide the assurances to them over systems instead of drilling down more with their questions to the manager.

Head of internal audit, English unitary council

- *Support and understanding is pretty good. However there is always scope to challenge management more about the issues IA might have reported and certainly over the timely implementation of recommendations.*

Head of internal audit, English metropolitan district council

One of the weaker areas was in relation to providing assurance over partnership arrangements. In comparison to the 2011 survey there appears to have been only a small improvement, although collaborative working and shared services have expanded considerably in the sector.

Percentage of heads of audit viewing their committee as effective in ensuring there is adequate assurance over partnerships:

	Very effective	Quite effective
2011 heads of audit respondents	3%	23%
2016 heads of audit respondents	5%	31%

Explaining the work of the committee both internally and externally did not score very highly either. We did not ask this question in 2011 so it is not possible to compare the answers. Some audit committees do not have a high profile within the council and councillors who are not involved with the committee may have little understanding or knowledge of its work. Similarly managers may not understand its contribution either.

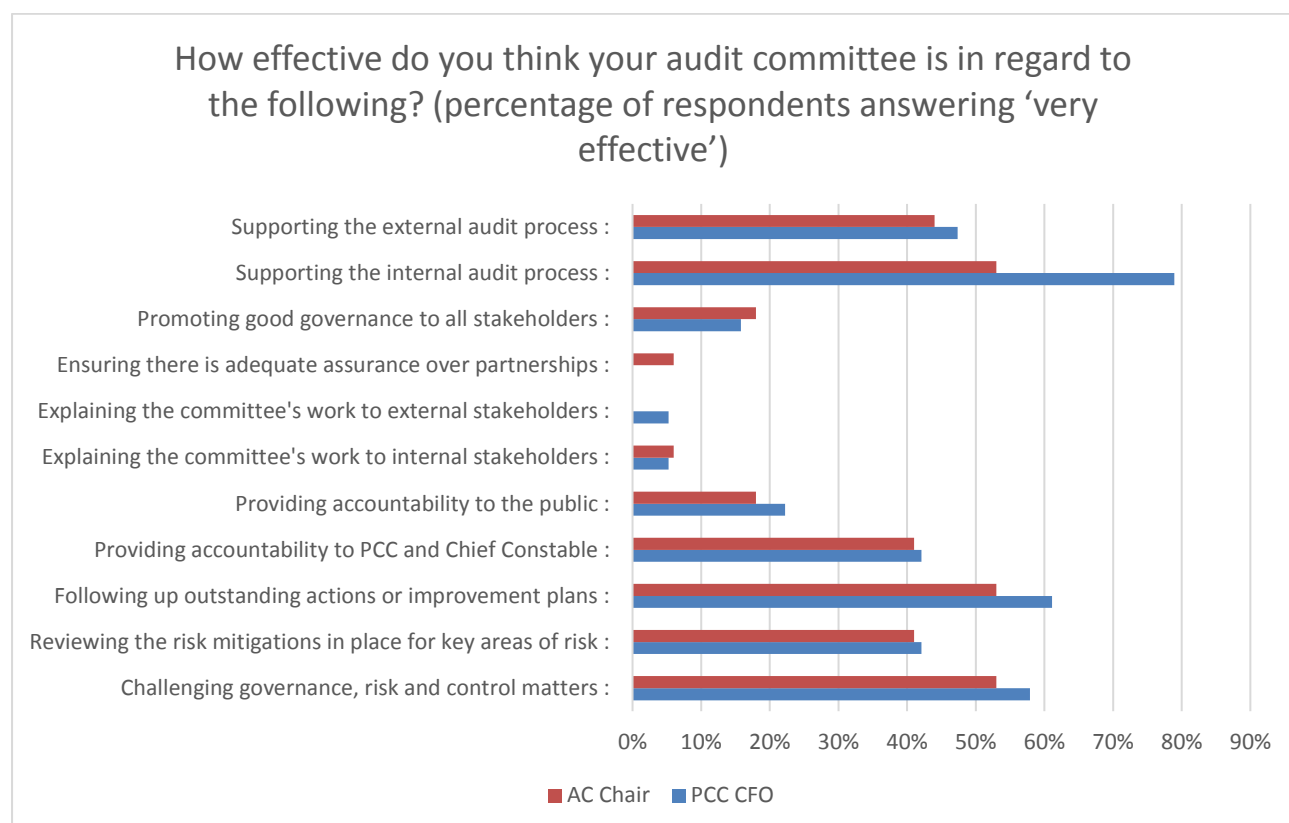
- *Attendance is not always as good as it might be. Very few Members who are not members of the Committee attend and, rarely, members of the public.*

Chair, English district council

In the private sector there has been a push to improve the reporting by the audit committee on its activities. Since the Financial Reporting Council's [Guidance on Audit Committees](#) was updated in 2012, audit committees of larger companies should include an explanation of their work in the annual report, specifically covering the significant issues in the financial statements they covered, the effectiveness of the external audit process and how objectivity and independence of external audit are safeguarded in relation to non-audit work. In comparison there is less regulation impacting on local authority audit committees, although all are recommended to make an annual report in the CIPFA guidance.

In the survey we did ask whether committees had produced an annual report available to the public. Thirty five percent of HIAs in local authorities said they had and 53% of police CFOs had. The adoption of this practice by all audit committees would help the committee to explain its work to both internal and external stakeholders.

A Detailed Look at the Police Results



Overall the views expressed by the CFO and the audit committee chairs coincide well. Whereas the local authority chairs tended to be more positive in their responses than the HIAs, police chairs tended to be slightly less positive than the CFOs in response to several areas.

In only one area was there a very significant difference between chairs and CFOs: the effectiveness of the support provided to internal audit.

	Very effective	Quite effective
CFO respondents	79%	21%
Chair respondents	53%	47%

Clearly chairs considered there was some room for improvement, perhaps reflecting the committee members' wider experience of internal audit and audit committees in other settings.

A high level of effectiveness was also identified for following up action plans and for challenging governance risk and control matters. Over 40% of both groups also viewed the committee as very effective in regards to reviewing risk mitigations and providing accountability to the PCC and Chief Constable.

Partnership assurance did not score so highly. The table below shows the percentage of respondents viewing the committee as either very effective or quite effective in this area.

	Very effective	Quite effective
CFO respondents	0%	33%
Chair respondents	6%	53%

Given the increasing profile of collaboration both with other forces and with other public bodies, with fire authorities in particular, this area perhaps requires further consideration at the local level.

Explaining the work of the committee and providing accountability to the public were also lower scoring, similar to the local authority profile. As already noted, 53% of police CFOs said that the committee had produced an annual report to the public. While this is already a higher percentage than local authority committees, there is still room for improvement.

Conclusions

Measuring effectiveness is not an exact science. Seeking views of those who lead audit committees and who work closely with them does give us an insight however into their relative strengths and weaknesses. At the local level it is beneficial for audit committees to review their own effectiveness and to seek feedback from those interacting with the committee. The CIPFA publication *Audit Committees, Practical Guidance for Local Authorities and Police* (CIPFA, 2013) recommends that the committee should evaluate its performance and seek feedback. The data from this survey can be used to feed into such an evaluation.

Comparing the views on effectiveness of police and local authority committees highlights the influence of the differing compositions of the committees. Access to independent members has helped the police audit committees to be more effective within a relatively short time period. However this approach, together with their advisory role, has thrown up some problems around relationships, communications and attitudes which will need to be addressed.

Recommendations

1. All audit committees should review their performance and seek feedback from those who regularly work with the committee or rely on its assurances.
2. Audit committees should identify any barriers to improving their effectiveness and seek to address them.
3. Those committees that do not already do so should consider producing an annual report to explain their role and demonstrate the value they have added.
4. All audit committees should ensure that they have a clear and accessible statement on the website that explains their role and helps stakeholders to understand their work and contribution.

Further briefings on the results of the audit committee survey are available to download from the CIPFA website. The recommendations in these briefings should be read alongside those above:

- Commentary and Executive Summary, CIPFA Survey on Local Authority and Police Audit Committees
- CIPFA Survey on Local Authority Audit Committees

- CIPFA Survey on Police Audit Committees
- Training and Support for Local Authority and Police Audit Committees
- Internal Audit and Audit Committees in Local Authorities and Police.

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CIPFA Survey on Local Authority and Police Audit Committees: Internal Audit and the Audit Committee

Briefing from the CIPFA Better Governance Forum

November 2016

This briefing contains results from the survey on the views of local authority and police audit committee chairs and of key officers working with the committee. It is one of a series of briefings on the survey results, all of which are available to download from the CIPFA website.

The focus for this particular briefing is the interaction between internal audit and the committee. It considers how well the committee supports internal audit and helps the team meet professional standards and have impact. It also considers how well internal audit supports the committee.

Support for Internal Audit

Both heads of audit in local authorities and CFOs for PCCs responded that internal audit received a high level of support from their audit committee. For both local authorities and police, support for internal audit scored most highly when asked for views on the effectiveness of the audit committee. Chairs of audit committees also considered that their committee was effective in supporting internal audit. Another area that is important to internal auditors, the follow up of outstanding actions and improvement plans, also scored quite strongly.

Effectiveness of the audit committee in supporting the internal audit process:

	Very effective	Quite effective
Local authority head of internal audit	59%	37%
PCC CFO	79%	21%
Local authority chair	66%	31%
Police chair	53%	47%

Effectiveness of the audit committee in following up outstanding actions or improvement plans:

	Very effective	Quite effective
Local authority head of internal audit	41%	49%
PCC CFO	61%	28%
Local authority chair	51%	43%
Police chair	53%	29%

Some heads of internal audit did comment that they received good support from the committee:

- The support from the audit committee is first class and it is difficult to identify how it could better support the work of internal audit. The committee is focused on addressing control issues and making a difference in terms of how the Council ensures that it provides value for money.*

Head of audit, English unitary council

- I have always found them to be very supportive. They are willing to call responsible officers to account via attendance at committee to explain improvement plans if and when audit assurance ratings show weaknesses, or for more understanding on the management of key risks. They have always shown concern for internal audit resources being adequate and appear to appreciate the work and role of internal audit.*

Head of audit, English district council

We also asked heads of internal audit how their committee could better support internal audit. The most common theme expressed was the need for the committee to be more challenging, for example:

- Support and understanding is pretty good. However there is always scope to challenge management more about the issues IA might have reported and certainly over the timely implementation of recommendations.*

Head of audit, English metropolitan district council

- The committee could assist internal audit in requiring senior managers to account for their arrangements for governance and internal control. Having to account to committee may encourage managers to consider their arrangements in a more systematic way and to account for failures.*

Head of audit, English district council

Other issues raised by heads of internal audit included the need for the committee to raise its profile among other members and to assist internal audit in raising its profile as well. Other suggestions covered the structure and training of the committee to help it operate more effectively.

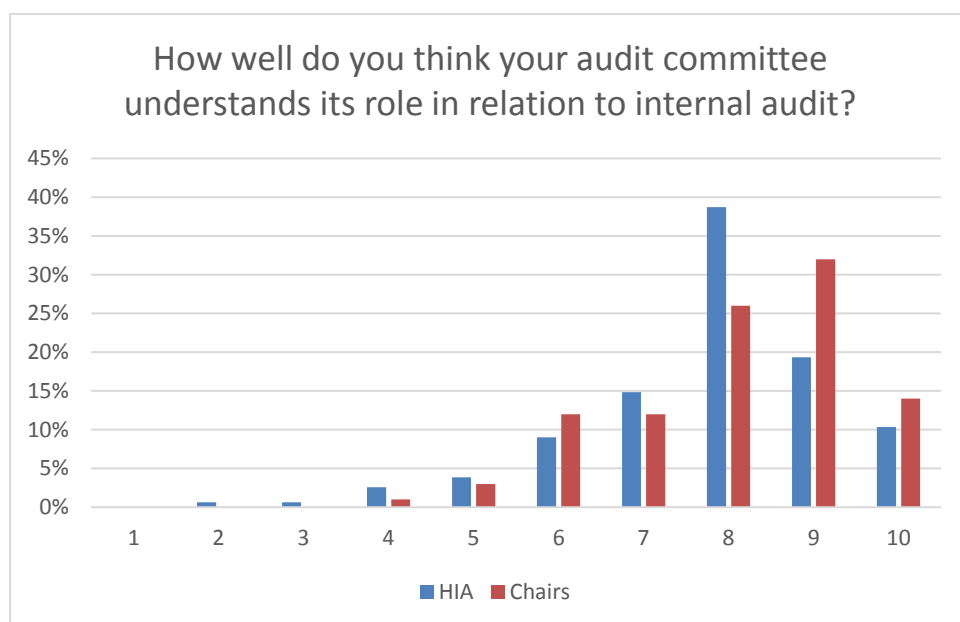
- Having greater linkage with the Cabinet, and the Council's senior leadership team - thus ensuring a wider senior platform for discussion of governance matters, and a higher profile of such matters. This would also provide a more effective*

'feedback loop' so that the Committee can be aware of key strategic matters and the risks that it should be focusing on.

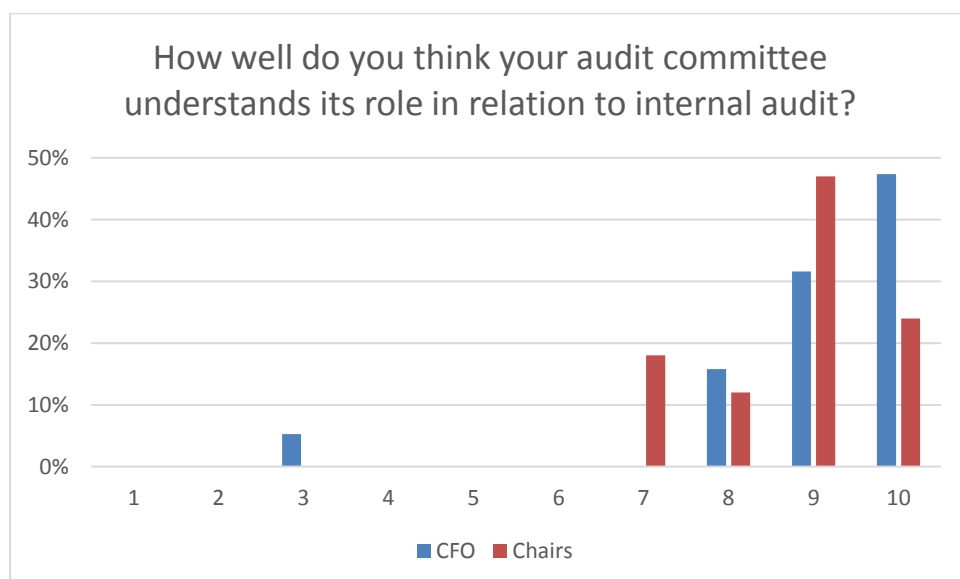
Head of audit, English metropolitan district council

We also asked how well the audit committee understands its role in relation to internal audit and how positive the committee was towards it. Again most heads of audit and CFOs for the PCC scored their audit committee highly. Chairs also scored their committees highly. The charts below compare the responses for head of internal audit/CFO with the chair for local authorities and police. Respondents were asked to score their audit committee's understanding out of ten, where ten was a very high level of understanding.

Local authorities:



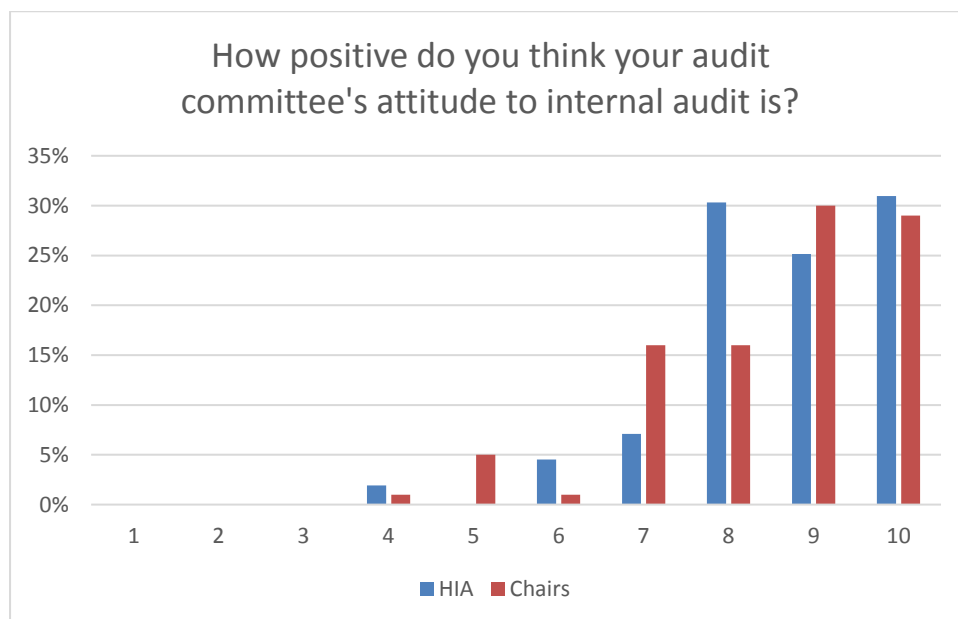
Police:



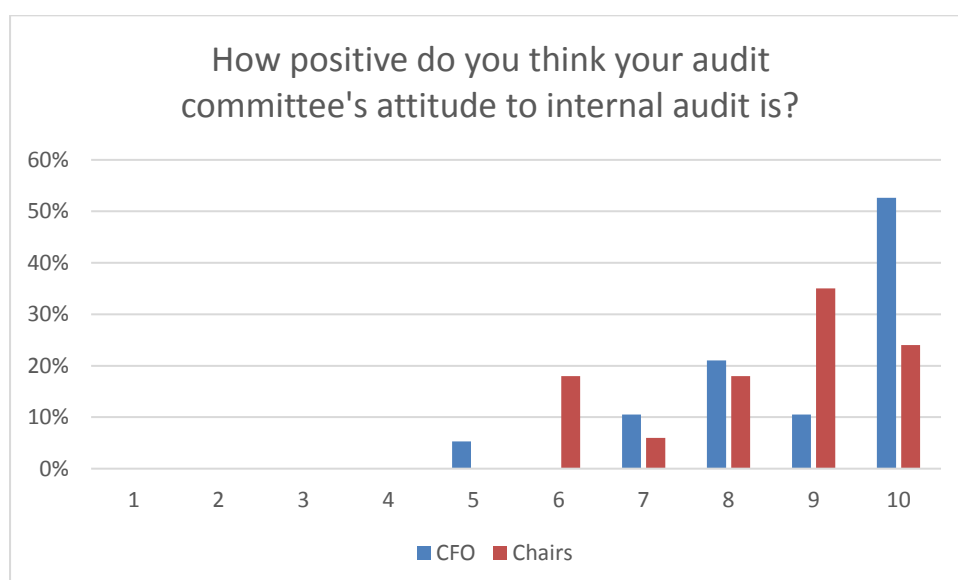
Many local authorities and police respondents gave good scores but local authorities did present a broader profile than police, perhaps reflecting the knowledge base among police audit committee members.

We also asked respondents to score the committee out of ten for how positive they were towards internal audit, where ten was a highly positive attitude.

Local authorities:



Police:

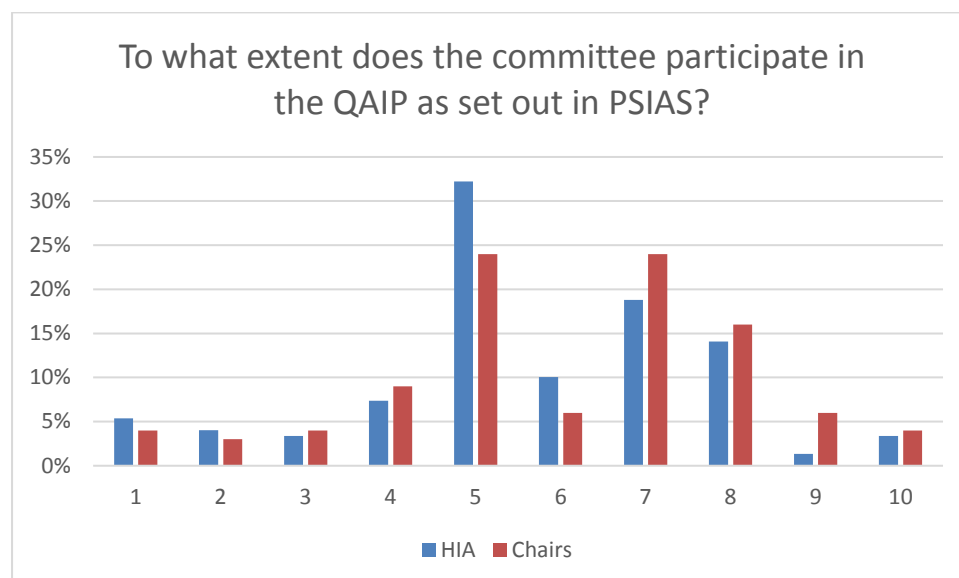


While the profile of responses is similar between local authority and police for heads of audit and CFOs, there is a small difference in the attitude of chairs with 18% of police chairs scoring six and only 7% of local authority chairs scoring six or below.

Internal Audit Professional Standards and the Audit Committee

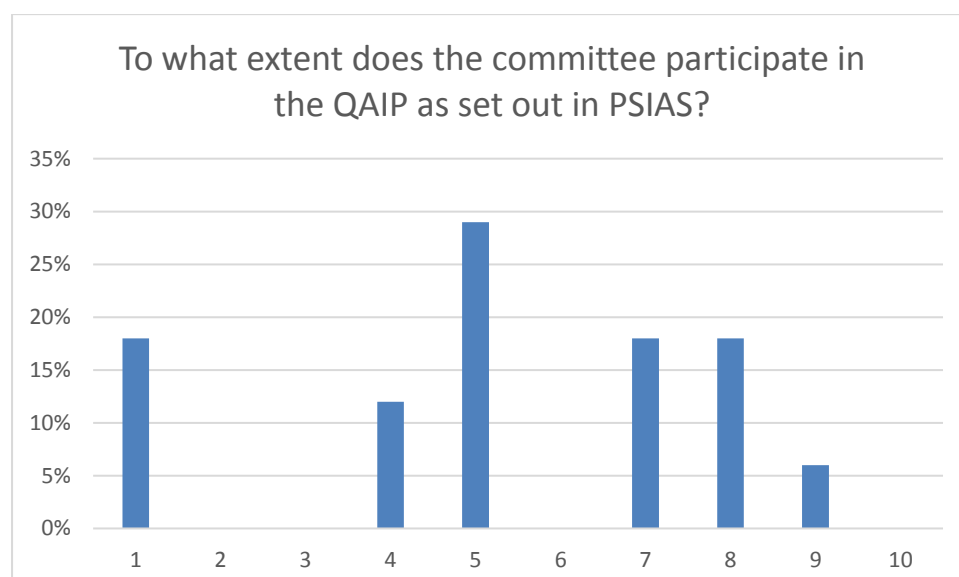
The local authority survey included two questions about internal audit professional standards, in particular on the role of the audit committee in relation to the quality assurance and improvement programme (QAIP). We asked respondents to score their committee out of ten, where ten would be very actively involved.

Local authorities:



Police:

Responses from police chairs only.



For both local authorities and police there is only modest involvement from the majority of committees. The QAIP not only includes the periodic external assessment but also the

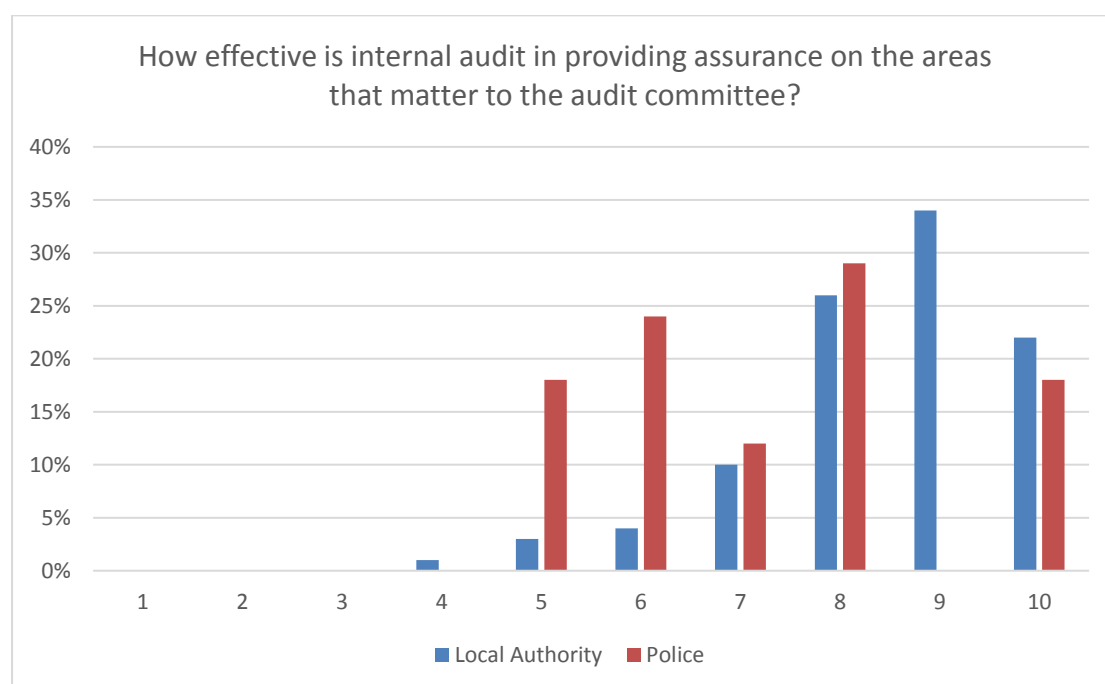
regular monitoring and ongoing self-assessments of conformance. The annual report of the head of internal audit should include the results of the QAIP and progress against any improvement plans. Ideally audit committee chairs would be aware of the programme the head of audit has put in place the outcomes and the audit committee would monitor any improvement plans. This might be an area that should receive additional attention by the committee. Issue 12 of *Audit Committee Update* (CIPFA, 2013) explains the QAIP and what audit committee members should know. It is available from the [CIPFA Better Governance Forum](#).

We also asked heads of audit in local authorities to rate whether the introduction of PSIAs had helped the relationship between internal audit and the audit committee. The majority of respondents (51%) felt there had been no difference (a score of five out of ten) but a modest improvement (six or seven out of ten) was noted by 27% and 18% felt there was significant improvement (eight, nine or ten out of ten).

Internal Audit Support for the Audit Committee

Although the number of committee meetings varies from organisation to organisation our analysis found that the average attendance rates for heads of internal audit at the meetings was 97%, which is very high indeed. It clearly shows a high level of commitment to supporting the committee.

We also asked chairs of audit committees for their views on the effectiveness of internal audit in providing assurance to the committee. Respondents were asked to rate on a scale of one to ten, where ten would be highly effective. The chart below shows the spread of responses for local authorities and police chairs.



While both sectors scored quite highly here, the local authority internal audit teams did score more highly than the police. Eighty two percent of local authority chairs rated their internal audit teams as eight or higher, as opposed to 47% of police chairs. We followed up this question by asking how internal audit could better support the audit committee and a range of views were expressed. The following quotes will provide some helpful insight for heads of audit looking to improve their internal audit and interaction with the committee.

Views from local authority chairs:

- *by increasing the staff to adequately do the work required*
- *our internal audit service is provided by an external contractor and when budgets and areas of examination have been agreed at the start of a financial year there is then no resource to deal with other issues arising*
- *members allowed to shadow and/or participate in live audits*
- *more information on the implementation with officers*
- *our internal audit is excellent but comments are not always listened to or acted upon*
- *sharing in more detail of the risk assessment that leads to the audit plan*
- *less jargon, more practical examples*
- *better work on fraud detection and monitoring*
- *auditing ethics and culture of the organisation.*

Views from police chairs:

- *actively seek input from the audit committee regarding ways to further improve the effectiveness of internal audit*
- *by being independent of senior management.*
- *consistency with internal audit personnel, ie a named individual, as there have been changes in last year*
- *planning could be improved*
- *discussions with audit committee before work plan is finalised*
- *exert their independence of the force/commissioner admin and finance functions*
- *focus on the strategic*
- *draw on experience elsewhere with other police audit committees*
- *remember to evaluate VFM in audits*
- *be more challenging*
- *greater involvement of the committee in preparation of audit plan and strategy*
- *need to probe further on outcomes rather than checking processes are in place and followed*
- *the budget for internal audit is set at a low level and therefore only allows sufficient days to cover basic transactional audits; there is no capacity to deploy internal audit to look at wider risks.*

The relationship of internal audit with the audit committee is important and mutually supportive. When operating effectively the committee will be a critical friend with a focus on the quality of internal audit and the maintenance of professional standards. This in turn helps to ensure that internal audit's work is well targeted and supported by the audit committee. The range of comments above demonstrate that current audit committee chairs can provide that constructive feedback.

Conclusions

Overall both local authority and police audit committees are providing good support to their internal audit teams. There is some scope for improvement, particularly by developing the knowledge and understanding of the audit committee members and through the committee deploying more questioning and constructive challenge. There is also scope for an improved dialogue between some internal auditors and the audit committee to ensure that audit focuses on the key areas for assurance and that the audit committee is providing feedback and constructive challenge.

Recommendations

1. Heads of internal audit should evaluate whether their audit committees require further guidance or training on internal audit and the committee's role.
2. Heads of internal audit should seek regular feedback from the audit committee as part of their QAIP.
3. Heads of internal audit should note the suggestions made by the audit committee chairs in the responses to the survey and consider whether they apply to their own internal audit service.

Further briefings on the results of the audit committee survey are available to download from the CIPFA website. The recommendations in these briefings should be read alongside those above:

- Commentary and Executive Summary, CIPFA Survey on Local Authority and Police Audit Committees
- CIPFA Survey on Local Authority Audit Committees
- CIPFA Survey on Police Audit Committees
- Training and Support for Local Authority and Police Audit Committees
- CIPFA Survey on Local Authority and Police Audit Committees: Effectiveness.

If you have any questions about the Better Governance Forum, our resources or future developments please do not hesitate to contact me.

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CIPFA Better Governance Forum

Audit Committee Update

Helping audit committees to be effective

Issue 21

The audit committee and internal audit quality

Briefing on topical issues

Audit committee training

December 2016

Introduction

Dear audit committee member,

In the latest issue of Audit Committee Update we address the quality assessments that are a mandatory requirement of the Public Sector Internal Audit Standards. Our article is from one of CIPFA's own assessors, Elizabeth Humphrey, and she outlines the key facts to know about internal audit quality assessments. In particular she highlights what part the audit committee should play in supporting the assessments.

The external quality assessment or EQA is one aspect of the quality assurance and improvement programme that internal auditors need to have in place, and supporting the quality of internal audit is one of the most important roles that the audit committee has. Unless the committee can feel confident about the work of its internal auditors, the assurance the committee can provide to the organisation is undermined.

The remainder of this issue focuses on keeping you up to date, with our regular briefing covering recent legislation, reports and guidance.

Overall I hope you will find this issue interesting, informative and helpful in your work on the committee.

Best wishes

Diana Melville

CIPFA Better Governance Forum

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Receive our Briefings Directly

This briefing will be sent to the main contact of organisations that subscribe to the CIPFA Better Governance Forum with a request that it be sent to all audit committee members.

If you have an organisational email address (for example jsmith@mycouncil.gov.uk) then you will also be able to register on our website and download any of our guides and briefings directly. To register now, please visit www.cipfa.org/Register.

Previous Issues of Audit Committee Update

You can download all the previous issues from the CIPFA Better Governance Forum website. Click on the links below to find what you need.

Issue	Principal Content	Link
Issues from 2010 – subsequent issues have updated the content in these issues.		
Issues from 2011		
4	Strategic Risk Management, Governance Risks in 2011, Role of the Head of Internal Audit	Issue 4
5	Understanding the Impact of IFRS on the Accounts, Key Findings from CIPFA's Survey of Audit Committees in Local Government	Issue 5
6	Partnerships from the Audit Committee Perspective	Issue 6
Issues from 2012		
7	Assurance Planning, Risk Outlook for 2012, Government Response to the Future of Local Audit Consultation	Issue 7
8	Commissioning, Procurement and Contracting Risks	Issue 8
9	Reviewing Assurance over Value for Money	Issue 9
Issues from 2013		
10	Public Sector Internal Audit Standards and Updates to Guidance on Annual Governance Statements	Issue 10
11	Local Audit and Accountability Bill, the Implications for Audit Committees, Update of CIPFA's Guidance on Audit Committees	Issue 11
12	Reviewing Internal Audit Quality, New CIPFA Publication, Audit Committees Practical Guidance for Local Authorities and Police, Regular Briefing on Current Issues	Issue 12
Issues from 2014		
13	Reviewing the Audit Plan, Update on the Local Audit and Accountability Act, Briefing on Topical Governance Issues	Issue 13
14	External Audit Quality and Independence, Government Consultation on Local Audit Regulations, CIPFA's Consultation on a New Counter Fraud Code, Regular Briefing on Current Issues	Issue 14
15	CIPFA Code of Practice on Managing the Risk of Fraud and Corruption, the Audit Committee Role in Countering Fraud, Regular Briefing on Current Developments	Issue 15

Issues from 2015		
16	What Makes a Good Audit Committee Chair? Governance Developments in 2015	Issue 16
17	The Audit Committee Role in Reviewing the Financial Statements, Regular Briefing on Current Developments	Issue 17
18	Self-assessment and Improving Effectiveness, Appointment and Procurement of External Auditors, Regular Briefing on Current Issues	Issue 18
Issues from 2016		
19	Good Governance in Local Government – 2016 Framework, Appointing Local Auditors, Regular Briefing on Current Issues	Issue 19
20	CIPFA Survey on Audit Committees 2016, Regular Briefing on Current Issues	Issue 20

Workshops and Training for Audit Committee Members in 2017 from CIPFA

Development day for local government audit committees

This workshop is suitable for audit committee members or those working with the audit committee in local government. It will cover an update on new developments and legislation relevant to the audit committee role. In addition, it will feature the new governance framework, working effectively with internal audit and other key topics.

- [17 January 2017, London](#)
- [18 January 2017, Manchester](#)

Developments in police audit committees

These events are suitable for members of the joint audit committees supporting police and crime commissioners (PCCs) and chief constables. These events are run in conjunction with CIPFA's Police Network.

- 20 September 2017, London
- 21 September 2017, York

Other CIPFA events information and dates are available on the [website](#).

In house training and facilitation

In house audit committee training and guidance tailored to your needs is available. Options include:

- key roles and responsibilities of the committee
- effective chairing and support for the committee
- working with internal and external auditors
- public sector internal audit standards
- corporate governance
- strategic risk management
- value for money

- fraud risks and counter fraud arrangements
- reviewing the financial statements
- assurance arrangements
- improving impact and effectiveness.

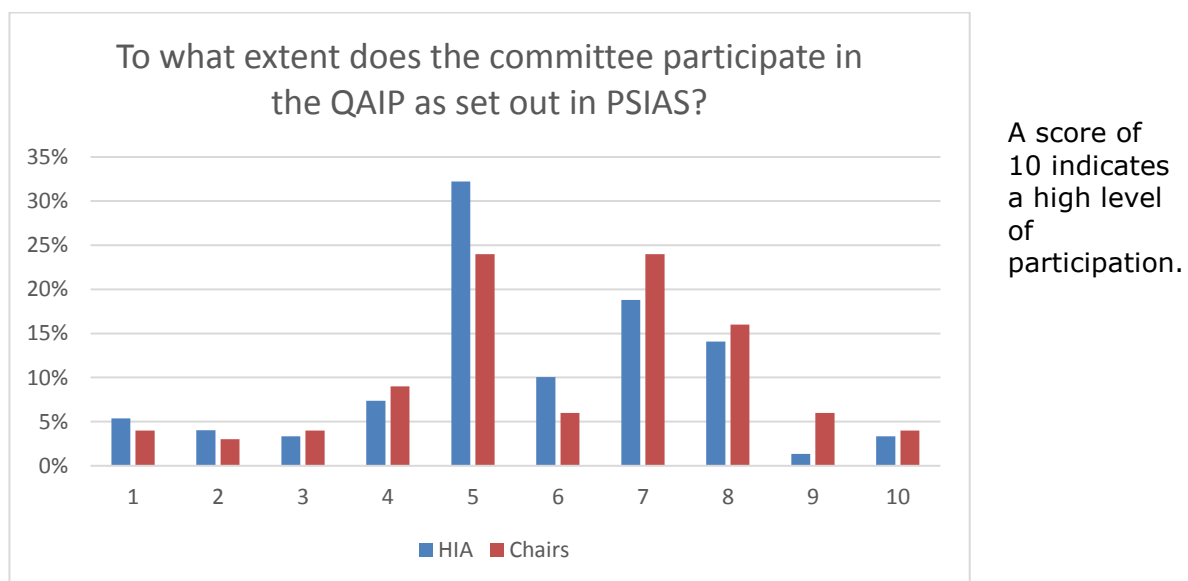
For further details contact blane.sweeney@cipfa.org or email diana.melville@cipfa.org or visit the [CIPFA website](#) where we have a brochure to download outlining the support we have available for audit committees.

The Audit Committee and Internal Audit: Supporting your Auditors to do their Best

How can you help? How would you know how they are doing?

The answer lies in the Public Sector Internal Audit Standards (PSIAS), the Quality, Assurance and Improvement Programme (QAIP) and the annual internal and external quality assessments (IQA and EQA), but how does the audit committee get involved in this alphabet jungle and what more could you do?

The PSIAS came into effect from 1 April 2013 and set out expectations of auditors, audit committees and senior management. By now, you should have received the results of up to three internal quality assessments (IQAs) against them (normally in the annual audit report). You may also have commissioned an external quality assessment (EQA) and had a chat with an external assessor. In the recent CIPFA survey on audit committees in local authorities and police there was a mixed response to the question about the audit committee's involvement in the quality programme. The chart below shows the responses from heads of internal audit (HIA) and chairs of audit committees for local authorities. For further details of the survey download our briefings from the [CIPFA website](#).



Quality Assurance and Improvement Programme (QAIP)

Every audit section is expected to have a QAIP. This is the ongoing process through which they check that their performance meets their own criteria for delivery and also professional standards, including the PSIAS. A typical QAIP will consist of:

1. routine signing off of audits at different stages, for example after the terms of reference have been written, at the end of the fieldwork and before the draft and final reports are issued

2. a detailed review of the audit file at the end of the fieldwork stage, to check for mistakes, gaps in information and that all the key issues have been covered and are included in the report
3. post-audit questionnaires to auditees asking about the progress of the audit and the auditor's performance; these can be of limited value if the response rate to these questionnaires is poor
4. sample reviewing of completed audit files by staff who were not involved in the original audit (only large audit teams will have the resources to undertake this sort of review)
5. a set of performance indicators against which performance is measured over time
6. a programme for internal and external quality assessments (IQA and EQA), indicating who is to be involved.

Internal quality assessment (IQA)

The PSIAS require audit functions to review their performance against the standards periodically. While the standards don't specify a frequency, most audit teams carry out a review every year and report it in their annual report, together with their report of their activities in the year and their opinion on the system of internal control. The reporting should cover:

1. the scope of the review
2. who undertook the review, whether they were part of the audit team and their knowledge and experience of the standards
3. the outcome and conclusions of the review
4. actions to be undertaken as a consequence of the review.

IQAs should be carried out both within the audit team and by others within the organisation who have sufficient knowledge and understanding of internal audit to be able to reach a valid opinion. This is one area where the audit committee can play a useful role by being part of the review of the service, annually or from time to time. Carry out your own audit of the auditors by seeking evidence from others, looking at documentation and reviewing some audit work. You'll learn a lot and your auditors will greatly value your input. You could look for the following:

1. Evidence of thorough, risk-based planning. Are the risks to be audited documented? Do auditees think the auditors tackled the significant risks in their audit work? Does the audit work and report reflect the risks identified during the planning stage?
2. Evidence of effective reporting. Can you follow a trail from the audit plan to the audit report? Is the report clear and concise, but not too concise? Does it set out the objectives and scope of the audit, the risks to be examined and the outcome

of that examination? Do the recommendations seem sensible given the findings and are the responses to them acceptable?

3. Evidence that audit has sufficient resources and is maintaining its objectivity and independence, acting with integrity, confidentiality and competence. When did you last discuss these matters with your auditors? What do external audit, the director of finance, the chief executive have to say? What do you think?

External quality assessment (EQA)

Once in every five year cycle (ie before 1 April 2018), each audit team is required to commission an external review of their service against the PSIAS (an EQA). The external reviewer must be suitably qualified to carry out this work (typically they will be or have been a head of audit) and must be independent of the organisation. The level of independence is a matter of judgement but an arrangement whereby two heads of audit agree to review each other's service is not appropriate.

Although the sponsor of the review is likely to be an officer, the audit committee should be involved in the commissioning of the EQA, while it is being undertaken and at the end of the review as follows:

Commissioning:

1. Consider what is being commissioned: a peer review, a review against the IQA or a fully independent EQA.
2. Take a view on who might undertake this work, their independence of the organisation and qualifications to carry it out.

During the review:

1. At the very least, the chair of the audit committee should be one of the EQA interviewees. The reviewer will seek your perspective on audit's independence and objectivity, the planning and reporting of audit work and the way in which the auditors keep the audit committee informed, and the working relationships between the auditor and audit committee.
2. Some reviewers may want to speak to more audit committee members as their relationship with the audit team may differ from that between the chair and the auditors.
3. Some reviewers may wish to attend an audit committee to observe the interaction at first hand.
4. If any major findings come out of the review, you should expect to be informed of them as soon as possible.

After the review:

The reviewer will produce a report, identifying compliance and non-compliance with the standards and making recommendations and suggestions for improvement. This report

should be included on the next audit committee agenda and you should follow up on activities against the action plan.

What do you do if your internal audit is provided by a contractor?

There has been some confusion about whether an IQA or EQA is required if you are using contracted internal audit and they have their own IQA and EQA arrangements. This will depend on the nature of the external provision and your officers will need to seek detailed advice.¹ In essence, any assessment, internal or external, looks both at the quality of the audit work and the way in which the audit function works with the organisation. While the quality of work may be covered by a review of the contractor's arrangements, especially if they do not vary their approach from client to client, the interaction with each client organisation probably isn't. Deciding on an appropriate scope for any review to avoid duplication and not be too onerous for the contractor is key.

Conclusion

Any quality assessment, internal or external, is intended to add value and improve the service provided by your internal auditors. An external reviewer is likely to be a great source of advice and suggestions. Make the most of the opportunities that come with such a review and use it to develop your audit team to deliver their best.

Elizabeth Humphrey CPFA

CIPFA Governance and Audit Associate

¹ A guidance note has been issued by the Internal Audit Standards Advisory Board (IASAB) on this topic: [QAIP and Multi-client Service Providers \(2014\)](#)

Recent Developments You May Need to Know About

Legislation, regulations and consultations

Appointment of local auditors

In our previous issues of Audit Committee Update we have provided updates on the requirement to appoint local auditors under the Local Audit and Accountability Act 2014. Public Sector Audit Appointments (PSAA) is the organisation appointed by the communities and local government secretary to conduct a sector led appointment process that eligible bodies can opt into.

PSAA issued their invitation to local bodies on 27 October 2016 with a closing date of 9 March 2017. They have put in a lengthy response period for the acceptance of the invitation, recognising that under the regulations councils must have the approval of full council to opt in. The appointment period will last for five years. Further details about the invitation and PSAA's plans are on their [website](#).

The alternative to the PSAA appointment is to undertake an independent or shared appointment, using an auditor panel to provide oversight. Authorities should also have regard for the EU procurement thresholds.

For further details on the regulations and process for the appointment of local auditors please see [earlier issues](#) and the guidance on [auditor panels](#) available from CIPFA.

Forthcoming changes to the Public Sector Internal Audit Standards (PSIAS)

The responsible internal audit standard setters for the public sector will be issuing a consultation on amendments to the PSIAS. The PSIAS incorporate the international standards established by the Global Institute of Internal Audit and the Institute has recently published new amendments to the standards to be effective from 1 January 2017 for their members.

While it is the intention to maintain the alignment of the PSIAS to the international standards, there will be no amendment until after the completion of the consultation. The consultation will propose some amendments, deletions and additions to the public sector requirements or interpretations that the PSIAS contain. It is intended that the updated PSIAS will take effect from 1 April 2017.

Further details will be made available on the consultations part of the [CIPFA website](#) by 19 December. Audit committees are encouraged to consider the changes and to respond to the consultation.

Draft regulations [The Combined Authorities \(Overview and Scrutiny Committees, Access to Information and Audit Committees\) Order 2016](#)

The draft regulations on audit committees cover political balance and definition of independence for the independent member(s) on the committee. They also cover the method of appointment.

Reports, recommendations and guidance

Delivering Good Governance in Local Government

The guidance notes to support the new [Framework](#) are now available for English, Welsh and Scottish local authorities and for police. The framework applies from April 2016 and will need to be reflected in the annual governance statement for 2016/17.

- [English local authorities](#)
- [Police](#)
- [Welsh local authorities](#)
- [Scottish local authorities](#)

Briefings on the CIPFA surveys of audit committees

Six thematic briefings on the results of the survey are now available to download from the CIPFA website. The surveys were issued earlier this year and sought the views of chairs of audit committees, heads of internal audit in local authorities and CFOs for the PCC. The briefings cover effectiveness, the relationship with internal audit, training and support plus specific findings for local authorities and police. The briefings also contain recommendations, and local authority and police audit committees are encouraged to review the findings and recommendations and consider their application for their own committee. [Audit committee survey briefings](#).

Reports in the public interest

PSAA publishes on its [website](#) reports in the public interest issued by local auditors. Over the last two months eight reports have been published, all on parish councils. In each case the council failed to meet its statutory duty to prepare an annual return about its finances and governance.

National Fraud Initiative

The report from the latest data matching investigations in England is now available. The initiative overseen by the [Cabinet Office](#) covers all local authority bodies plus other key sources of data and other public bodies. This year's report identified £200m of fraud. Another notable finding was a drop in the level of social housing fraud being identified. The reports for Scotland, Wales and Northern Ireland were published earlier in the year. See the last issue for further details.

Local government ethics in England: how is local ownership working?

The Localism Act 2011 placed the emphasis for the maintenance of standards on local ownership. This research report makes a preliminary assessment of local ownership in practice since the Act was passed among the 14 councils and three police forces that comprise England's North East region. [Public Money and Management](#)

Government interventions in local government

The Communities and Local Government Select Committee published a [report](#) in August identifying lessons to be learned from the government interventions in Rotherham and Tower Hamlets. The report emphasised the need for authorities to ensure they have proper checks and balances and scrutiny arrangements in place to drive a culture of transparency and continuous improvement. Communities and Local Government published their [response to the recommendations](#) in October.

As part of the annual review of governance arrangements to support the governance statement, authorities should be considering the adequacy of its scrutiny arrangements. Having effective scrutiny underpins the Principles in [Delivering Good Governance in Local Government: Framework](#) (CIPFA/Solace, 2016)

Financial resilience and sustainability

These challenges are significant for many public bodies. Reports from the state audit institutions provide insights into the experiences of specific sectors.

- Wales Audit Office report on the [Financial Resilience of Local Authorities in Wales 2015-16](#)
- National Audit Office report on [Financial Sustainability of Local Authorities: Capital Expenditure and Resourcing](#)
- National Audit Office report [Financial Sustainability of the NHS](#)
- Audit Scotland's annual review of the financial health and performance of the NHS in Scotland [NHS in Scotland 2016](#)
- Audit Scotland's [Audit of Higher Education in Scottish Universities](#)

In addition the National Audit Office is planning to produce a report on the financial sustainability of schools.

Value Creation in the Public Sector

The International Integrated Reporting Council and CIPFA, with the support of the World Bank, have published an [introductory guide](#) for public sector leaders on integrated thinking and reporting. The Guide outlines the fundamental concepts at the heart of Integrated Reporting (<IR>) and provides case studies of entities and organisations implementing <IR> to help them achieve the outcomes they are aiming for.

Upholding the Seven Principles of Public Life in Regulation

The latest report from the Committee on Standards in Public Life reviews how regulatory bodies in the United Kingdom uphold the Seven Principles of Public Life. [Striking the Balance Upholding the Seven Principles of Public Life in Regulation](#)

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Annual Regulatory Compliance and Quality Report

BDO LLP June 2016

Audit 2015/16

Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association in August 2014.

The Secretary of State for Communities and Local Government delegated statutory functions (from the Audit Commission Act 1998) to PSAA by way of a letter of delegation issued under powers contained in the Local Audit and Accountability Act 2014.

The company is responsible for appointing auditors to local government, police and local NHS bodies, for setting audit fees and for making arrangements for the certification of housing benefit subsidy claims.

Before 1 April 2015, these responsibilities were discharged by the Audit Commission.

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Summary report

Introduction

- 1 Public Sector Audit Appointments Limited (PSAA) monitors the performance of all its audit firms. The results of our monitoring provide audited bodies and other stakeholders with assurance that auditors within our regime are delivering high-quality audits.
- 2 There are two strands to our monitoring:
 - audit quality- applying our annual quality review programme (QRP) to the audit work undertaken for the year ending 2014/15; and
 - regulatory compliance- reporting quarterly on audit firms' compliance with our 2015/16 regulatory requirements as set out in the Terms of Appointment.
- 3 The audit quality and regulatory compliance monitoring for 2015/16 incorporated a range of measurements and checks comprising:
 - a review of each firm's latest published annual transparency reports;
 - the results of reviewing a sample of each firm's audit quality monitoring reviews (QMRs) of its financial statements, Value for Money (VFM) conclusion and housing benefit (HB COUNT) work. Our review included assessing compliance with the HB COUNT guidance;
 - an assessment as to whether we could rely on the results of each firm's systems for quality control and monitoring;
 - a review of the Financial Reporting Council's (FRC) published reports on the results of its inspection of audits in the private sector;
 - the results of our inspection of each firm by the FRC's Audit Quality Review team (AQR) as part of our commissioned rolling inspection programme of financial statements and VFM work;
 - the results of each firm's compliance with 15 key indicators relating to our Terms of Appointment requirements;
 - a review of each firms' systems to ensure they comply with our regulatory and information assurance requirements; and
 - a review of each firm's client satisfaction surveys for 2014/15 work.
- 4 This report summarises the results of our monitoring work for BDO LLP

Overall performance

5 The firm is meeting our standards for overall audit quality and our regulatory compliance requirements. We calculated the red, amber, green (RAG) indicator for overall audit quality and regulatory compliance using the principles detailed in Appendices 1 and 2. For 2015/16, BDO's combined audit quality and regulatory compliance rating was green.

Figure 1: **2016 Comparative performance for audit quality and regulatory compliance**

BDO	DT	EY	GT	KPMG	Mazars	PwC
-----	----	----	----	------	--------	-----

6 The firm has maintained its performance against the regulatory compliance indicators since last year, with all but one of the 2015/16 indicators scored as green. The firm's overall weighted audit quality score has increased from last year.

7 The satisfaction survey results show that audited bodies are satisfied with the performance of BDO as their auditor.

Detailed report

Quality review programme

FRC Inspection

8 Every year each firm provides a self-assessment in the form of a statutory transparency report. Our review of the latest BDO transparency report did not highlight any significant issues of note.

9 Annually, the FRC publishes reports on the audit firms subject to full scope FRC inspections, including firms in our regime. We place reliance on the work of the FRC, which reviews the firms' systems and processes for ensuring audit quality and reviews a sample of their audits of public interest entities. In its latest public report on the firm, the FRC concluded that audit procedures were performed to an acceptable standard for the 8 audit engagements reviewed, with no audits requiring significant improvement.

10 The FRC has identified key issues in its reports which, profession wide, should be addressed in order to improve audit quality. These were:

- a need for auditors to improve their scepticism in challenging the appropriateness of assumptions in key areas of audit judgment such as impairment testing and property valuation;
- a need for some improvement in the sufficiency and appropriateness of audit procedures being performed on revenue recognition; and
- a need to report more thoroughly to audit committees.

11 We have raised these issues with BDO and with all other firms in our regime and we will continue to monitor progress in these areas.

12 We also commissioned inspections of all firms by the FRC for this year's QRP. The AQR inspected one VFM conclusion file from BDO's PSAA work and provided an updated commentary on the applicability of firm-wide procedures to our audits. Having considered the review points raised by the AQR, we assessed the audit inspected as acceptable with only limited improvements required.

13 The improvement points raised by the AQR, across all the firms, following this year's programme of work for PSAA were:

- clearly justify and document materiality considerations and not default automatically to the top of the materiality range;
- consider property valuations as significant risk areas, and ensure that when considering external valuers' work there is review and challenge of management assumptions. In addition, audit teams need to verify the completeness and accuracy of source data used by experts and evidence that assets are revalued on the appropriate cycle in accordance with accounting policies;
- evidence journals selected for testing by audit teams, while improving procedures to ensure the completeness of the population of journals considered for testing;
- better evidence work on asset valuations and ensure actuarial assumptions are appropriately challenged;
- ensure that VFM work covers financial resilience over an appropriate period and that the outcomes from VFM work are reporting in sufficient detail to those charged with governance.

14 We have combined our scores for the AQR inspections for PSAA with the firm's QMR scores in the relevant sections in the rest of this report. These improvement points are included in Appendix 4.

QMR programme

15 PSAA sets quality standards for its appointed auditors and monitors their performance against them. The principal means of monitoring and evaluating the quality of auditors' work is the annual QRP. For 2015/16 we relied on each firm's own quality monitoring arrangements.

16 All firms agreed to follow PSAA's methodology and reporting format for their QMRs for VFM conclusion and HB COUNT work and to use their own methodology for assessing work on the financial statements (converting the financial statements results to our scoring system). We concluded that BDO's QMRs were sufficiently detailed and rigorous for us to place reliance on all of the reviews provided by the firm.

17 Each firm scored their QMRs using a common four-point scale, with 3 being the highest and 0 being the lowest. A score of 1 is our benchmark for acceptable performance. The full assessment scale is detailed in Table 1 and we calculated the score for overall audit quality on a weighted assessment using the weightings detailed in appendix 1.

Table 1- PSAA assessment scale

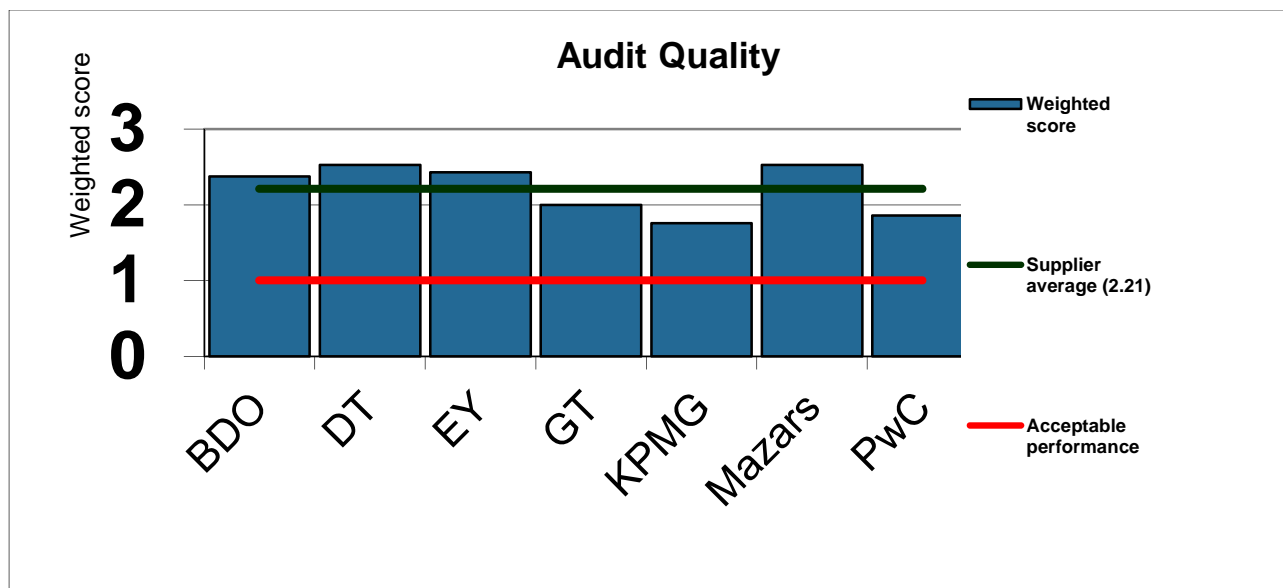
Score	Descriptor
3	Good, no improvement required
2	Acceptable with limited improvements required
1	Acceptable overall with improvements required
0	Improvements required which are individually or collectively significant

18 BDO's score was 2.38, compared to an all firm average of 2.21. This was an improvement on last year's score of 2.08, although this year we used a slightly amended scoring base^I.

19 Figure 2 shows the assessment of BDO's overall audit quality performance in comparison to other firms.

^I The prior year assessment included consideration of Whole of Government Accounts work which is not included in the current year assessment. The current year assessment gives a higher weighting to financial statements work.

Figure 2: 2016 Audit quality performance



20 Our QRP methodology is designed to highlight any specific weaknesses at individual file level, specifically where our benchmark score of 1 is not met, which may have ordinarily been masked behind a high average score across the various elements (Financial statements, VFM and HB COUNT) of the QRP.

21 We have calculated a red, amber, green (RAG) indicator for each element of the QRP, using the principles detailed in Appendix 2, as well as for overall audit quality. Where a firm scores an average of less than 2, or has any scores of 0, a rating higher than amber in that element is not possible.

22 For 2015/16, BDO's overall rating for audit quality was green. We consider each of the individual elements making up this rating below.

Figure 3: 2016 Comparative performance for audit quality

BDO	DT	EY	GT	KPMG	Mazars	PwC
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Financial statements audit work

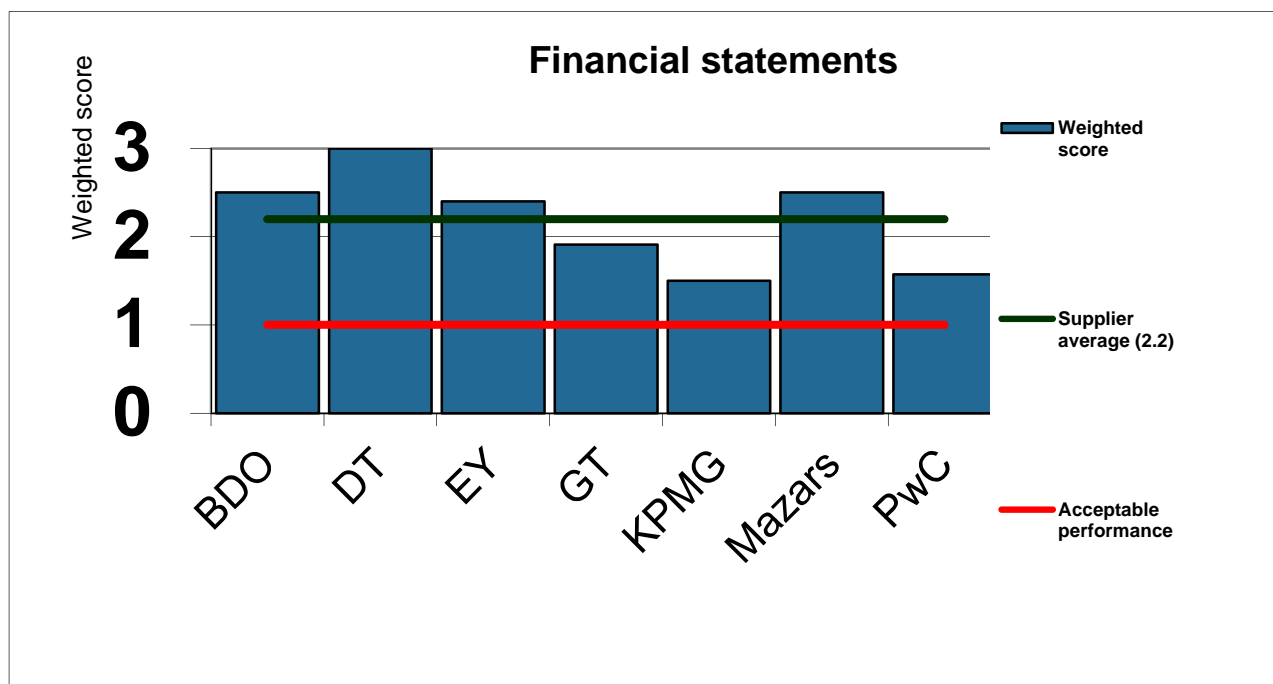
23 The firm provided the results of two QMRs for financial statement audit files. We reviewed these and agreed with the firm assessments.

24 The improvement areas from these reviews included:

- more timely sign-off of planning files; and
- clearer links between risks and work done.

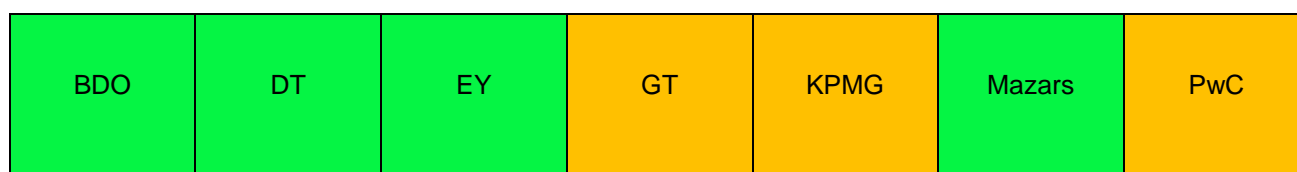
25 Figure 4 shows the comparative performance for financial statement audit work based on the results of the QMRs and AQR review. BDO's average score was 2.5 compared to an all firm average of 2.2.

Figure 4: 2016 financial statements performance



26 For 2014/15 work, BDO's rating for financial statements work was green.

Figure 5: 2015 Comparative performance for financial statements audit work



VFM conclusion audit work

27 The firm provided the results of two QMRs for VFM conclusion audit work. We reviewed the results and agreed with the assessments.

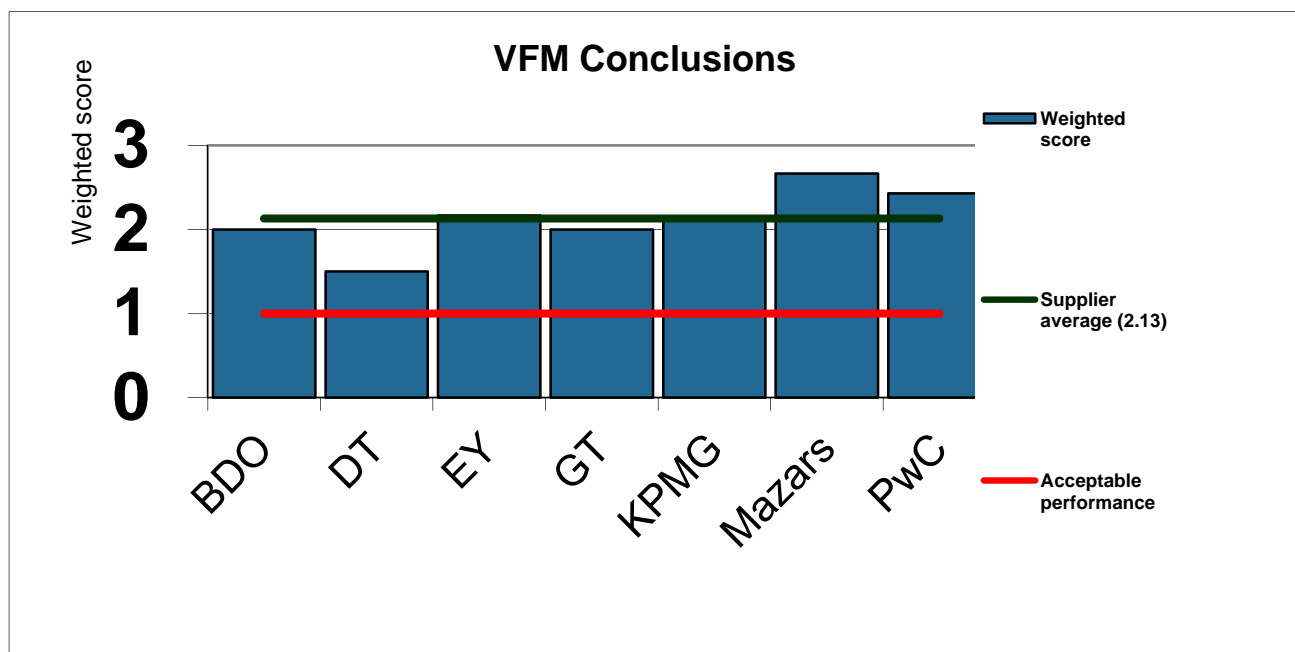
28 In addition, the AQR review for PSAA provided a score for one additional VFM conclusion assessment.

29 The improvement areas from these individual QMRs and the AQR review included:

- ensuring more robust challenge of savings plans; and
- ensuring clearer documentation on file of the consideration of risks.

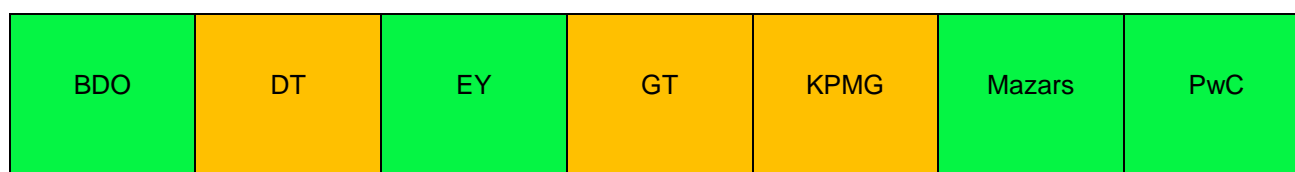
30 Figure 6 shows the comparative performance for VFM audit work based on the results of the QMRs and AQR review. BDO's score was 2 compared to an all firm average of 2.13.

Figure 6: 2016 VFM conclusion performance



31 For 2014/15, BDO's rating was green on VFM conclusion work.

Figure 7: 2015 Comparative performance for VFM conclusion audit work



Housing benefit work

32 Each year auditors certify local authority claims for housing benefit subsidy to the Department for Work and Pensions (DWP). They are required to undertake this work using specific guidance and tools (HB COUNT) which are agreed annually with the DWP. HB COUNT sets out the approach and work needed to certify the subsidy claim form. It includes a requirement to test a sample of cases to check that benefits have been awarded in accordance with benefit regulations and that subsidy has been properly claimed.

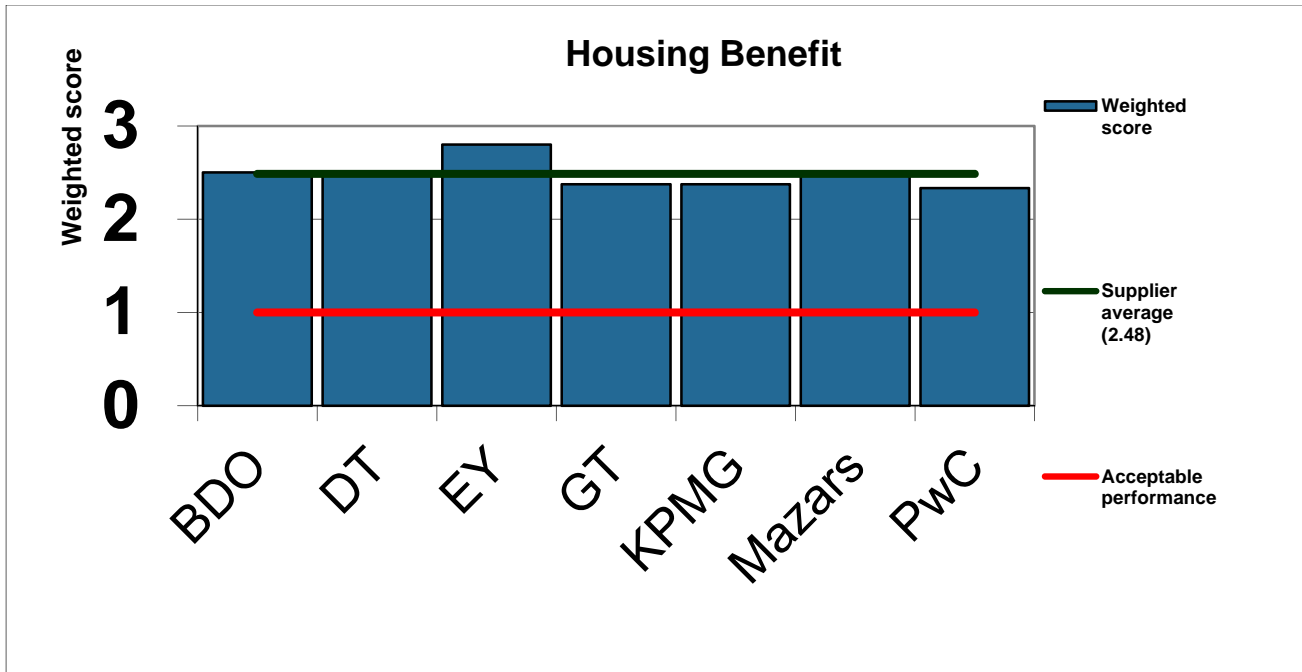
33 The firm provided the results of two QMRs for HB COUNT work. We reviewed the results of these and we agreed with the firm's assessments.

34 The improvement areas from these individual QMRs included:

- ensuring any qualification letter points make clear the period over which the issue had existed.

35 Figure 8 shows the comparative performance of each firm based on the QMRs. BDO's average score was 2.50 compared to an all firm average of 2.48.

Figure 8: 2016 HB COUNT performance



36 For 2014/15, BDO's rating was green for HB COUNT audit work.

Figure 9: 2015 Comparative performance for HB COUNT audit work

BDO	DT	EY	GT	KPMG	Mazars	PwC
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Regulatory compliance

Systems for compliance with our regulatory requirements

37 In 2015/16, BDO confirmed to PSAA that its systems and procedures for regulatory compliance were the same as those in the previous year. Nothing came to PSAA’s attention in year to suggest this is not correct, and we concluded that we could continue to rely on BDO’s systems.

Systems for compliance with our information assurance requirements

38 During 2015, PSAA instructed its Internal Auditor (TIAA) to undertake a review of the firm’s information assurance arrangements based on a return completed by the firm. The review considered whether the firm met the requirements of information governance legislation. There were no issues arising as a result of this review and we concluded that we could continue to rely on the firm’s arrangements.

Quarterly monitoring of our regulatory requirements

39 PSAA reported the details in the quarterly monitoring reports issued to the firm during the year, including fee variation request and requests for non-audit services from the firm. Figure 10 details the firm's overall regulatory compliance RAG rating compared to other firms.

Figure 10: 2016 Comparative performance for regulatory compliance

BDO	DT	EY	GT	KPMG	Mazars	PwC
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40 The firm performed well across all of the regulatory compliance requirements, with all but one of the 15 indicators being rated as green. The firm was unable to issue opinions on a number of WGA returns by the deadline and has been rated as red in this area.

41 We have included a summary at Appendix 3 of the results of the 2015/16 regulatory compliance monitoring RAG ratings, comparing the firm's performance against the overall performance for all firms.

Client satisfaction surveys

42 All firms agreed to undertake client satisfaction surveys for 2014/15 audits, and to report the results to PSAA. We specified questions to be included in the survey and asked firms to provide us with an analysis of the results.

43 The firm received results from a sample of audited bodies on completion of their 2014/15 audit. Table 1 details the questions and the average score.

Table 2- Satisfaction survey results

Question	Average score (max. 10)*
How satisfied are you overall with your audit?	8.0
How satisfied are you with the amount of contact with your Engagement Lead?	7.8
How satisfied are you with the amount of contact with your Audit Manager?	8.3
How satisfied are you with the technical competence and skills of your audit team?	7.7
How satisfied are you with your auditor's performance at committee meetings?	8.2
How satisfied are you with your auditor's understanding of the key issues and risks specific to your organisation?	8.2
How satisfied are you with the usefulness of your auditor's reports?	7.2
How satisfied are you with the timeliness of your auditor's reports?	7.8

These results show that audited bodies are, on the whole, satisfied with the level of service received from BDO and for 2015/16, BDO's rating for client satisfaction was green.

Figure 11: 2016 Comparative performance for client satisfaction

BDO	DT	EY	GT	KPMG	Mazars	PwC
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44 The firm has undertaken an analysis of any improvements points raised in the survey and has committed to action any individual improvement points identified.

Recommendations

Recommendations arising from the 2015/16 quality review programme

45 The key areas for improvement identified this year from file reviews are noted below, as taken from the body of this report:

Financial statements

- more timely sign-off of planning files; and
- clearer links between risks and work done.

VFM

- ensuring more robust challenge of savings plans; and
- ensuring clearer documentation on file of the consideration of risks.

HB

- ensuring any qualification letter points make clear the period over which the issue had existed.

Compliance

- improve performance on the timely issue of WGA reports.

46 Appendix 4 provides details of the actions the firm has, or intends to take to address these improvement areas. We understand the findings from the QMR will be considered by the firm's quality team and then communicated to staff.

Appendix 1 – Weightings to calculate overall quality score

Table 3- weightings

Audit element	Local government	NHS
	%	%
Financial statements	60	70
VFM Conclusions	30	30
HB	10	-
Total	100	100

Appendix 2 - Audit quality and regulatory compliance RAG rating

Table 4- QRP elements of financial statements, VFM conclusions and housing benefit work.

Rating	Firm level: Overall Audit Quality score	Firm level: Individual QRP element
Green	Firm audit quality score ≥ 2 and no scores of '0' at file review level	Average element score ≥ 2 and no scores of '0' at file review level
Amber	Firm audit quality score ≥ 1 with up to two scores of '0' at file review level	Average element score ≥ 1 with up to one score of '0' at file review level
Red	Firm audit quality score < 1 , or Firm audit quality score ≥ 1 but three or more scores of '0' at file review level	Average element score < 1 , or Average element score ≥ 1 but two or more scores of '0' at file review level

Table 5- Regulatory compliance RAG rating based on 15 quarterly monitoring indicators

Rating	Overall firm level score- indicators
Green	11 or more at green and no more than two at red.
Red	Six or more indicators at red.
Amber	Neither green nor red.

Table 6- Combined audit quality and regulatory compliance RAG

		QRP RAG		
		Red	Amber	Green
Regulatory compliance RAG	Red	R	R	A
	Amber	R	A	A
	Green	A	A	G

Table 7- RAG rating the results of satisfaction survey results

Firm 0-10 assessment (average)	Firm unsatisfactory – satisfactory assessment (average)	PSAA RAG rating
0-3	very dissatisfied / dissatisfied / unsatisfactory	R
4-6	reasonable / good / satisfied	A
7-10	very good / very satisfied / outstanding	G

Appendix 3 - Results of 2015/16 regulatory compliance monitoring

Activity	Target	All firms % (no).	BDO % (no).	Red, amber, green (RAG) status
Issue of planning letters.	100% by 30 April 2015.	100	100	G >95.01% delivered or 1 missed. A 90.01 - 95.00% delivered or 2 missed. R <90.00% delivered or 3 missed.
Issue of NHS audit opinions.	100% by 29 May 2015 (CCG) and 5 June 2015 (NHS Trusts).	97.7 (7)	100	G >95.01% delivered or 1 missed. A 90.01 - 95.00% delivered or 2 missed. R <90.00% delivered or 3 missed.
Issue of NHS VFM conclusions.	100% by 29 May 2015 (CCG) and 5 June 2015 (NHS Trusts).	98.0 (6)	100	G >95.01% delivered or 1 missed. A 90.01 - 95.00% delivered or 2 missed. R <90.00% delivered or 3 missed.
Confirmation of final fee to NHS audited bodies.	100% by 31 July 2015.	99.7 (1)	100	G >95.01% delivered or 1 missed. A 90.01 - 95.00% delivered or 2 missed. R <90.00% delivered or 3 missed.
Issue of NHS annual audit letters.	100% by 31 July 2015.	98.7 (4)	100	G >95.01% delivered or 1 missed. A 90.01 - 95.00% delivered or 2 missed. R <90.00% delivered or 3 missed.
Issue of LG audit opinions.	100% by 30 September 2015.	97.1 (15)	100	G >95.01% delivered or 1 missed. A 90.01 - 95.00% delivered or 2 missed. R <90.00% delivered or 3 missed.
Issue of LG VFM conclusions.	100% by 30 September 2015.	97.1 (15)	100	G >95.01% delivered or 1 missed. A 90.01 - 95.00% delivered or 2 missed. R <90.00% delivered or 3 missed.
Issue of WGA reports.	100% issued by 2 October 2015.	94.7 (27)	78.6 (3)	G >95.01% delivered or 1 missed. A 90.01 - 95.00% delivered or 2 missed. R <90.00% delivered or 3 missed.

Activity	Target	All firms % (no).	BDO % (no).	Red, amber, green (RAG) status
Confirmation of final LG fee to audited body.	100% by 30 October 2015.	96.7 (17)	100	G >95.01% delivered or 1 missed. A 90.01 - 95.00% delivered or 2 missed. R <90.00% delivered or 3 missed.
Issue of LG annual audit letters.	100% by 30 October 2015.	97.5 (13)	100	G >95.01% delivered or 1 missed. A 90.01 - 95.00% delivered or 2 missed. R <90.00% delivered or 3 missed.
Audited body database information.	Accurate information provided to PSAA.	98.9 (15)	100	G >95.01% delivered or 1 missed. A 90.01 - 95.00% delivered or 2 missed. R <90.00% delivered or 3 missed.
Complaints upheld against auditors.	No complaints upheld against auditors.	0	0	G = 0 upheld A = 1 R = 2 or more
Non-compliance with requirements on independence issues.	No instances of non-compliance.	2	0	Firm G = up to 1 A = 2 R = 3 or more Regime G = up to 7 A = 8 R = 9 or more.
Objections decided upon within nine months.	100% of objections decided upon within nine months.	14	0	Firm G = up to 1 A = 2 R = 3 or more Regime G = up to 7 A = 8 R = 9 or more.
Attendance at Contact Partner group meetings.	No meetings missed.	0	0	Firm G = up to 2 A = 3 R = 4 or more Regime G = up to 7

Activity	Target	All firms % (no).	BDO % (no).	Red, amber, green (RAG) status
				A = 8 R = 9 or more.

Appendix 4 - Summary of regulatory compliance and QRP improvement areas

Table 8- improvement areas

Area	Improvement required	Firm response
Key messages from FRC annual reports	<p>A need for auditors to improve their scepticism in challenging the appropriateness of assumptions in key areas of audit judgment such as impairment testing and property valuation;</p> <p>A need for some improvement in the sufficiency and appropriateness of audit procedures being performed on revenue recognition; and</p> <p>A need to report more thoroughly to audit committees.</p>	The firm will address these points, to the extent that they are relevant, as part of its response to FRC.
AQR review on PSAA work (across all firms)	<p>Clearly justify and document materiality considerations and not default automatically to the top of the materiality range;</p> <p>Consider property valuations as significant risk areas, and ensure that when considering external valuers' work there is review and challenge of management assumptions. In addition, audit teams need to verify the completeness and accuracy of source data used by experts and evidence that assets are revalued on the appropriate cycle in accordance with accounting policies;</p> <p>Evidence journals selected for testing by audit teams, while improving procedures to ensure the completeness of the population of journals considered for testing;</p>	<p>An auditor guide to assist in the consideration of, and documentation, of materiality levels was introduced in November 2014 and used on all portfolio audits from 2014/15.</p> <p>We do have audits where property valuations have been determined to be significant risks, but each case is determined on its own merits. Regarding source data and valuation cycles, we will check that our audit programmes appropriately cover all of these issues.</p> <p>BDO consistently ensures completeness by obtaining a full ledger download and reconciling the opening and closing trial balance through all journals. Our audit programmes already provide for evidencing journals selected.</p>

	<p>Better evidence work on asset valuations and ensure actuarial assumptions are appropriately challenged; and</p> <p>Ensure that VFM work covers financial resilience over an appropriate period and that the outcomes from VFM work are reporting in sufficient detail to those charged with governance.</p>	<p>Not relevant during 2014/15, but teams have been reminded about these issues for 2015/16.</p> <p>Whilst BDO's review focus is consistent with the medium term financial planning of bodies, we will keep this area under review, taking account of NAO guidance and audit supplier consistency discussions.</p>
Financial statements	<p>More timely sign-off of planning files; and</p> <p>Clearer links between risks and work done.</p>	<p>This issue related to an isolated case where Partner review at the planning stage identified that some updating was needed in respect of documentation supporting two financial systems areas, neither of which were considered to be likely to give rise to an audit risk. With the exception of these very minor issues, the remainder of the file was signed off on a timely basis.</p> <p>Training to remind auditors about the functionality of BDO's audit package and linking of risks and related controls was undertaken during 2015. This should ensure that documentation of links is explicit.</p>
VFM conclusions	<p>Ensure more robust challenge of savings plans; and</p> <p>Ensure clearer documentation on file of the consideration of risks.</p>	<p>We will include this feedback as part of our annual training programme.</p> <p>We will reiterate the need for focused supporting papers, including clear referencing to specific sections of documents, as part of our annual training programme.</p>
Housing benefit	<p>Ensure any qualification letter points make clear the period over which the issue had existed.</p>	<p>We will remind auditors of this point as part of our annual tailored HBCOUNT training session.</p>

Regulatory compliance	Improve performance on the timely issue of WGA reports.	<p>The causes of delays for all three late submissions were late and poorly completed and supported WGA returns prepared by the bodies in question.</p> <p>BDO has consistently raised the issue of preparedness for audit of WGA returns with audited bodies and makes recommendations for improvements. However, it is our opinion that unless there is some form of penalty imposed on bodies for late submission, then this area will continue to have less priority attached than should be the case.</p>
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