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SOUTHEND-ON-SEA BOROUGH COUNCIL

Audit Committee

Date: Wednesday, 29th March, 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 18 January 2017 (Pages 1 - 4)**
- 4 LiquidLogic (To Follow)**
Report of the Deputy Chief Executive (People)
- 5 Section 75 Agreements (Pages 5 - 8)**
Report of Deputy Chief Executive (People)
- 6 Internal Audit Services, Risk Management Audit Update (To Follow)**
Presentation of Chief Executive
- 7 BDO: Grants Claims and Returns Certification Report for the Year ended 31 March 2016 (Pages 9 - 30)**
Report of Chief Executive
- 8 BDO: Progress Report to Those Charged with Governance (Pages 31 - 40)**
Report of Chief Executive
- 9 Counter Fraud & Investigation Directorate: Quarterly Progress Report and Counter Fraud & Investigation Strategy for 2017/18 (Pages 41 - 48)**
Report of Chief Executive
- 10 Internal Audit Service Quarterly Performance Report (Pages 49 - 100)**
Report of Chief Executive
- 11 BDO: Audit Plan 2016/17 (Pages 101 - 122)**
Report of Chief Executive
- 12 Internal Audit Charter, Strategy and Audit Plan for 2017/18 (Pages 123 - 164)**
Report of Chief Executive

Information Items

CIPFA Better Governance Forum, Audit Committee Update, Helping Audit Committees to be Effective, Issue 22:

- Developing an Effective Annual Governance Statement

- Regular Briefing on Current Developments
- Audit committee training.

Members:

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

SOUTHEND-ON-SEA BOROUGH COUNCIL

Meeting of Audit Committee

Date: Wednesday, 18th January, 2017

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,
J Moyies, J Ware-Lane and B Arscott*

*Substitute in accordance with Council Procedure Rule 31.

In Attendance: C Gamble, L Everard, J Chesterton, C Fozzard, A Langridge (BDO),
D Bonner, T MacGregor M Dineen, E Allen and Mr K Pandya

Start/End Time: 6.30 - 7.50 pm

632 Apologies for Absence

Apologies for absence were received from Cllr D Garston (Substitute Cllr Arscott)

633 Welcome

The Chairman welcomed to the meeting Mr Kash Pandya who had recently been appointed as the co-opted member to the Committee.

634 Declarations of Interest

(a) Councillor Davidson – Matters in relation to Southend Hospital – Southend Council appointed Governor to Southend University Hospital NHS Foundation Trust – Non-pecuniary interest

(b) Councillor Davidson – Matters in relation to South Essex Homes (SEH) – Non Executive Director, SEH - Non-pecuniary interest

(c) Councillor Nevin – Matters in relation to Southend Hospital – previous employee of Southend University Hospital NHS Foundation Trust – Non-pecuniary interest

(d) Councillor Arscott – Internal Audit Service Quarterly Performance Report – School governor, Our Lady of Lourdes Catholic Primary school/ Head teacher of Sacred Heart Primary School is safeguarding mentor/advisor for school governors – Non-pecuniary interest.

635 Minutes of the Meeting held on 21st September 2016

Resolved:-

That the Minutes of the Meeting held on 21st September 2016 be confirmed as a correct record and signed.

636 Corporate Risk Register 2016/17

The Committee considered a report of the Chief Executive presenting the updated Corporate Risk Register for 2016/17.

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

On consideration of the report, Members requested the Deputy Chief Executive (Place) to write to members of the Committee to clarify:

- Whether the Transport Asset Management Plan would include Council car parks.
- The proportion of the £12.9m European Regional Development funding for Growth Hub delivery (across the South East) that would be allocated to Southend.

Resolved:-

That the updated Corporate Risk Register for 2016/17, be noted.

637 Treasury Management Policy

The Committee considered a report of the Chief Executive presenting the Treasury Management Policy for 2017/18 comprising the following documents:

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

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

On consideration of the report, the Director of Finance and Resources undertook to write to members of the Committee to confirm the total amount of funding held by the Council which had been secured through section 106 agreements.

Resolved:-

That the Treasury Management Policy for 2017/18, be endorsed

638 BDO: Progress Report to Those Charged with Governance

The Committee considered a report by the BDO external auditor on the progress made in delivering the 2015/16 and 2016/17 Annual Audit Plans.

Resolved:-

That the progress made in delivering the Annual Audit Plans for 2015/16 and 2016/17, be accepted.

639 BDO: Annual Audit Letter 2015/16

The Committee considered a report of the Chief Executive presenting the External Auditor's Annual Audit Letter for 2015/16.

Resolved:-

That the Annual Audit Letter for 2015/16, be approved.

640 Internal Audit Service Quarterly Performance Report

The Committee considered a report of the Chief Executive updating Members 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.

On consideration of the report, Members requested the Deputy Chief Executive (People) to write to members of the Committee to clarify why the recommendations arising from the school audit reviews had not been implemented by certain schools.

In referring to the internal audit reviews in relation to the social care IT management system (contract procurement/project implementation health check) and Section 75 Partnership Agreement Integrated Equipment Service, and in response to the outcome of such reviews, the Chairman requested that the Deputy Chief Executive (People) to prepare a progress report to the next meeting of the Committee and asked that the relevant officers be invited to attend.

Resolved:-

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

641 Counter Fraud & Investigation Services Quarterly Performance Report

The Committee considered a report of the Chief Executive 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.

642 Information Items

The Committee noted the following items :

- CIPFA Survey on Local Authority and Police Audit Committees
 - o Background to the Survey
 - o The Structure and Composition of Local Authority Audit Committees
 - o Training and Support
 - o Effectiveness
 - o Internal Audit and the Audit Committee

- CIPFA Better Governance Forum, Audit Committee Update, Helping Audit Committees to be Effective, Issue 21:
 - o The audit committee and internal audit quality
 - o Briefing on topical issues
 - o Audit committee training.

- Public Sector Audit Appointments, Annual Regulatory Compliance and Quality report for BDO, Audit Year 2015/16

Chairman: _____

Southend-on-Sea Borough Council

Report of the Deputy Chief Executive (People)

to

Audit Committee

on

29th March 2017

Report prepared by: Paul Mavin Report of Group Manager,
Business Support Department for People

Section 75 Partnership Agreement Integrated Equipment Service

Executive Councillor – Councillor Salter

A Part 1 Public Agenda Item

1. Purpose of Report

To update the Audit Committee on progress following the audit report for the Section 75 Partnership Agreement Southend Integrated Equipment Service that was undertaken during March 2016 and issued in December 2016 with a completion date of April 2017.

2. Recommendations

The Audit Committee notes the actions being taken to address the issues arising from the Section 75 Partnership Agreement Southend Integrated Equipment Service Internal Audit Report.

3. Audit Objective

- 3.1 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.

4. Audit Recommendations

- 4.1 The Section 75 Agreement and supporting Terms of Reference need to be updated to reflect the current requirements of all parties and a process established to ensure they are subject to regular review.
- 4.2 Proper performance arrangements also need to be established for the service that involves regular reporting to all partners against more relevant, agreed targets. A more equitable basis for funding the service is being sought, based on service use.
- 4.3 The parties to this agreement are Southend Borough Council and Southend Clinical Commissioning Group.

5. Background

5.1 The Southend Integrated Equipment Service is based in a large leased unit on the temple Farm Industrial Estate in Southend. The large industrial unit provides storage and recycling facilities for disability aids such as hoists, commodes, walking frames and it has office facilities for the back office staff. The unit also provides office and clinical assessment rooms for South Essex Partnership Trust Occupational Therapists and the Wheelchair Service who share the lease.

5.2 The broad aims of the service are to provide the delivery of a single, integrated community long and short term equipment provision, Telecare and a minor adaptations service for people of all ages who live in and receive health and/or social care from Southend on Sea because of illness, physical or sensory disability or age related physical impairment.

The service also proactively collects and recycles its equipment. The service cleans and refurbishes items so that they can be loaned again and has specialist cleaning facilities to do this.

5.3 The broad outcomes of providing the service are:

- prevention of hospital admission
- facilitation of discharge from hospital
- enabling independent living
- improved level of function of quality of life.

5.4 For 2015/16 the Southend Integrated Equipment Service:

Delivered 23,592 items of equipment to 5,216 Southend residents. To do this the driver/technicians undertook 9,725 visits to the client's home.

The value of the equipment delivered was: £953,574.86p

The value of the equipment returned/recycled was: £916,717.47p

6. Current position

6.1 A task and finish group has been established that involves key operational, commissioning and financial representatives from Southend Borough Council, Southend Clinical Commissioning Group and South Essex Partnership Trust.

It has met on five occasions since November 2016 and has:

- established the demand for the service
- reviewed the list of standard equipment and withdrawn items that are not fit for purpose or not used and added some modern items that operate more efficiently and save carers time/personnel to operate
- agreed to formulate a partnership board to oversee and monitor performance and quality
- agreed on the frequency of partnership board meetings
- agreed a suite of key performance indicators

- negotiated a pooled funding arrangement and review mechanism within the partnership board
 - integrated the supply of NHS continuing healthcare equipment and made arrangement for the NHS to fund this in its entirety.
- 6.2 The Better Care Fund Section 75 template is being used as the basis for the Equipment Service agreement and a second draft is being produced that also makes reference to:
- an updated terms of reference and risk management process
 - capturing the views of local residents receiving equipment for further scrutiny at the next meeting on 31st March 2017.
- 6.3 The service is currently on course to have a completed Section 75 agreement by April 2017. However, once complete the agreement will require formal legal approval by SBC and SCCG before executive level scrutiny and final approval can be achieved.

Corporate Implications

7. Financial Implications

Total 2016/17 Equipment Service budget: £883,000

SBC £593,000 (67%)

SCCG £290,000 (33%)

8. Legal Implications

None

9. People Implications

None

10. Property Implications

Lease of unit 8 where the equipment service is located expires in September 2017. Currently, terms are being negotiated with the landlord for a new lease.

11. Consultation

None

12. Equalities Impact Assessment

An Equality Analysis will be undertaken.

13. Value for Money

See 4.4

14. Community Safety Implications

None.

15. Environmental Impact

None.

16. Background Papers

None.

Southend-on-Sea Borough Council

Agenda
Item No.

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Report of the Chief Executive
to
Audit Committee
on
29 March 2017

Report prepared by: BDO External Auditor

BDO: Grant Claims and Returns Certification Report for the Year ended 31 March 2016

Executive Councillor – Councillor Moring

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To present the External Auditor's Grant Claim and Return Certification Report for 2015/16 to the Audit Committee.

2. Recommendation

- 2.1 The Audit Committee accepts the Grant Claim and Return Certification Report for 2015/16.**

3. Background

- 3.1 The Public Sector Audit Appointments Limited (PSAA) mandates that the results of certification work will be produced annually by February each year to highlight errors, adjustments and qualifications arising in claims.
- 3.2 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

BDO act as an agent of PSAA in the certification of grant claims and returns work. Fee scales for certifying the Housing and Council Tax Benefits grant claim is set by PSAA. The scale fee set for 2015/16 was £22,226.

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 Offices' 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

None.

4.6 Equalities Impact Assessment

None.

4.7 Risk Assessment

The Council receives significant funding streams that require external audit to certify that the funding has been used in accordance with the funders' expectations. This funding would be at risk if external audit were not able to provide that certification.

The report includes an action plan to address issues identified in the report which will be monitored by officers.

4.8 Value for Money

None.

4.9 Community Safety Implications and Environmental Impact

None.

5. Background Papers

- National Audit Offices' Code of Audit Practice 2015
- The PSAA Work Programme and Scales of Fees 2015/16

6. Attachment:

BDO's Grant Claims and Returns Certification Report for the Year ended 31 March 2016



Southend-on-Sea Borough Council

¹¹
AUDIT PLAN TO THE AUDIT COMMITTEE
Audit for the year ending 31 March 2017

Date of issue: 21 March 2017

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INTRODUCTION

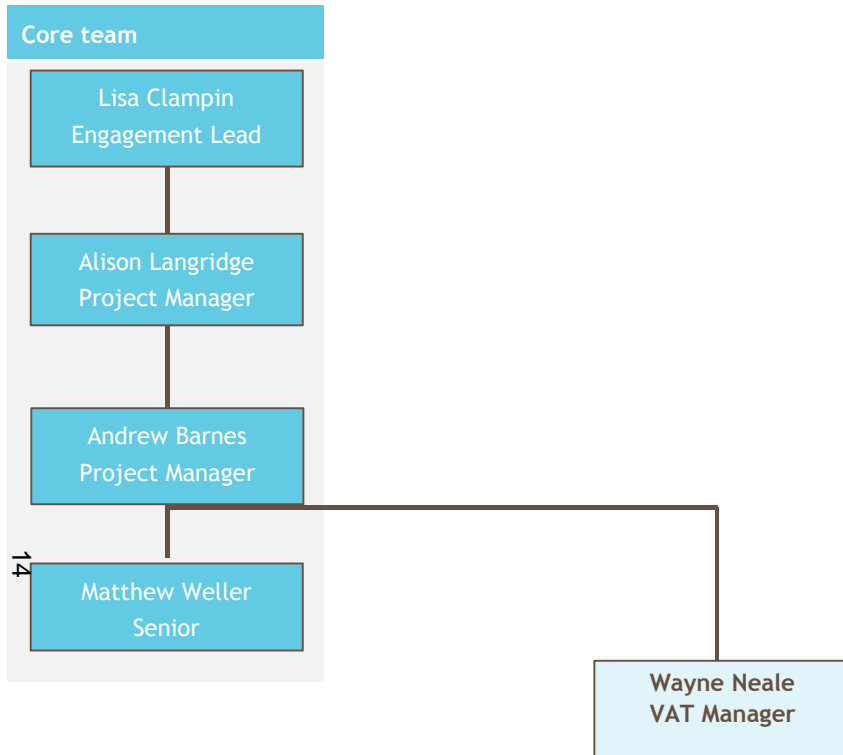
PURPOSE AND USE OF OUR REPORT

The purpose of this report is to highlight and explain the key issues which we believe to be relevant to the audit of the financial statements and use of resources of Southend-in-Sea Borough Council and consolidated entities (together the 'Group') for the year ending 31 March 2017. It forms a key part of our communication strategy with you, a strategy which is designed to promote effective two-way communication throughout the audit process. Planning is an iterative process and our plans, reflected in this report, will be reviewed and updated as our audit progresses.

This report has been prepared solely for the use of the Audit Committee.

In preparing this report, we do not accept or assume responsibility for any other purpose. If others choose to rely on the contents of this report, they do so entirely at their own risk.

YOUR BDO TEAM



Name	Contact details	Key responsibilities
Lisa Clampin Engagement Lead	Tel: 01473 320716 lisa.clampin@bdo.co.uk	Oversee the audit and sign the audit report
Alison Langridge Project Manager	Tel: 01473 320752 alison.langridge@bdo.co.uk	Management of the audit
Andrew Barnes Project Manager	Tel: 01473 320745 andrew.barnes@bdo.co.uk	Management of the audit (From June 2017 -Maternity cover)
Matthew Weller Senior	Tel: 01473 320804 matthew.weller@bdo.co.uk	Day to day supervision of the audit team
Wayne Neale VAT Manager	Tel: 01603 756914 wayne.neale@bdo.co.uk	Manage VAT review for audit purposes

Lisa Clampin is the engagement lead and has the primary responsibility to ensure that the appropriate audit opinion is given on the financial statements.

In meeting this responsibility, she will ensure that the audit has resulted in obtaining sufficient and appropriate evidence to provide reasonable, but not absolute, assurance that:

- the financial statements are free from material misstatement, whether due to fraud or error
- the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

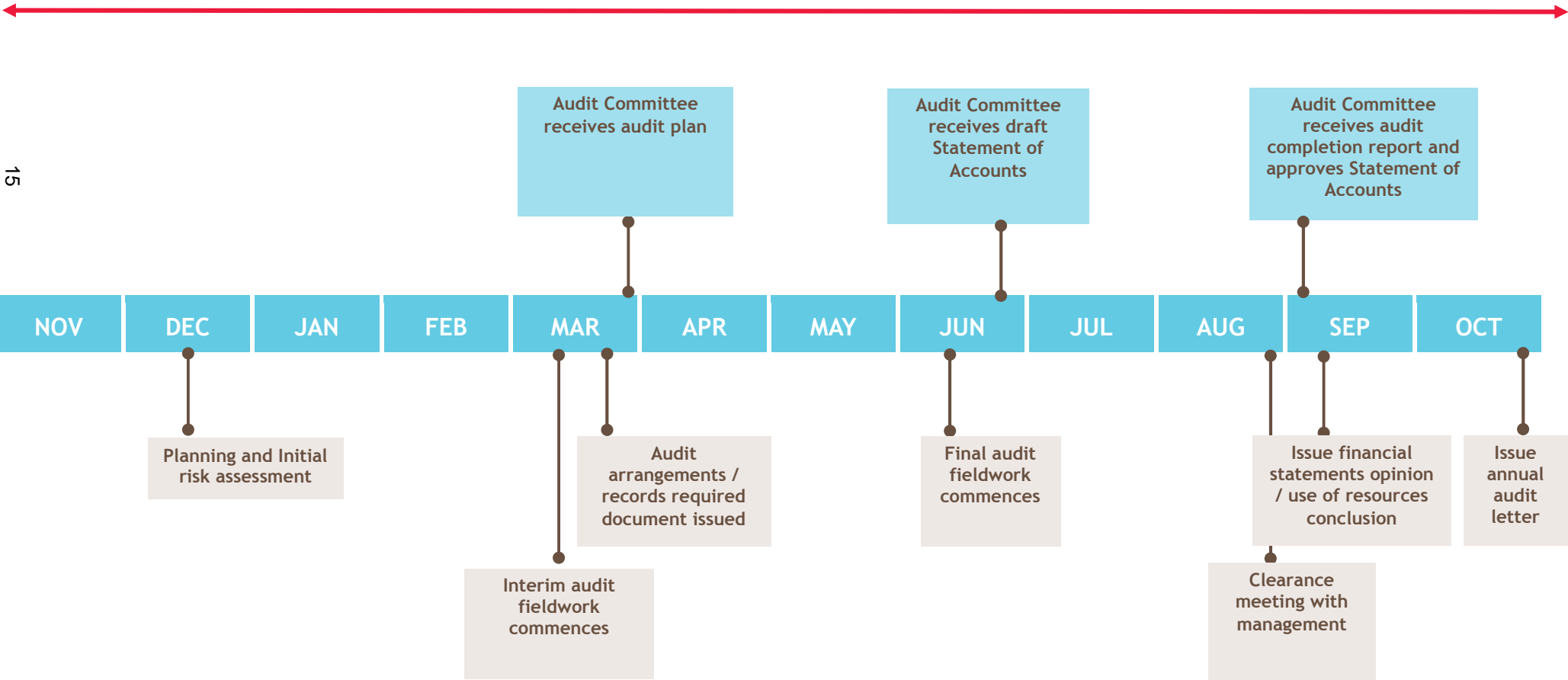
She is responsible for the overall quality of the engagement.

ENGAGEMENT TIMETABLE

TIMETABLE

The timeline below identifies the key dates and anticipated meetings for the production and approval of the audited financial statements and completion of the use of resources audit.

CONTINUOUS COMMUNICATIONS



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AUDIT SCOPE AND OBJECTIVES

SCOPE AND OBJECTIVES

Our audit scope covers the audit in accordance with the National Audit Office (NAO) Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the NAO.

Our objective is to form an opinion on whether:

FINANCIAL STATEMENTS		OTHER INFORMATION	WGA CONSOLIDATION	USE OF RESOURCES
<p>1 The financial statements give a true and fair view of the financial position of the group and Council and its expenditure and income for the period in question.</p>	<p>2 The financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.</p>	<p>3 Other information published together with the audited financial statements is consistent with the financial statements (including the governance statement).</p>	<p>4 The return required to facilitate the preparation of the Whole of Government Accounts (WGA) consolidated accounts is consistent with the audited financial statements.</p>	<p>5 The Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.</p>

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ADDITIONAL POWERS AND DUTIES

6 Where necessary:
To consider the issue of a report in the public interest.
To make a written recommendation to the Council.

7 Where necessary:
To allow electors to raise questions about the accounts and consider objections.
To apply to the court for a declaration that an item of account is contrary to law.
To consider whether to issue an advisory notice or to make an application for judicial review.

MATERIALITY

GROUP AND COMPONENT MATERIALITY

	MATERIALITY	CLEARLY TRIVIAL THRESHOLD
Group	£8,600,000	£215,000
Significant components:		
• Council	£8,600,000	£215,000

Please see Appendix I for detailed definitions of materiality and triviality.

At this stage planning materiality for the group and the Council has been based on 2% of the prior year gross expenditure. This will be revisited when the draft financial statements are received for audit.

The clearly trivial amount is based on 2.5% of the materiality level of the group. The Council, as parent entity, has a separate clearly trivial level also using the same 2.5%.

OVERALL AUDIT STRATEGY

We will perform a risk based audit on the group and Council’s financial statements and the Council’s use of resources

This enables us to focus our work on key audit areas.

Our starting point is to document our understanding of the group, Council and other component entities’ businesses and the specific risks it faces. We discussed the changes to the businesses and management’s own view of potential audit risk to gain an understanding of the activities and to determine which risks impact on our audit. We will continue to update this assessment throughout the audit.

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

For the use of resources audit, we consider the significance of business and operational risks insofar as they relate to ‘proper arrangements’, including risks at both sector and Council-specific level, and draw on relevant cost and performance information as appropriate.

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

Approach to components of the group financial statements

Our approach is designed to ensure we obtain the requisite level of assurance across the whole group.

Total coverage is expected to be as shown opposite, which is based upon prior year figures. We do not expect any significant changes in the proportion of expenditure and net assets in 2016/17.

SCOPE	EXPENDITURE COVERAGE 2015/16	NET ASSETS 31/3/16	EXPENDITURE COVERAGE 2014/15	NET ASSETS 31/3/15
Full scope procedures	£422m	£437m	£403m	£388m
Trust Funds	£1m	£17m	£1m	£17m
South Essex Homes	£10m	(£5m)	£11m	(£6m)
Total	£433m	£449m	£415m	£399m

OVERALL AUDIT STRATEGY

Group matters

COMPONENT NAME	% GROUP EXPENDITURE	% GROUP NET ASSETS	COMPONENT AUDITOR	OVERVIEW OF WORK TO BE PERFORMED	OVERVIEW OF THE NATURE OF OUR PLANNED INVOLVEMENT IN THE WORK PERFORMED BY THE COMPONENT AUDITOR
Full scope procedures:					
Council	97.5%	96.3%	BDO UK	Code audit of the financial statement prepared under CIPFA Code of Practice on Local Authority Accounting	Undertaken by the group audit team
Non-significant component procedures:					
Trust funds	0.2%	3.7%	N/A	PPE existence subject to specified procedures and analytical review.	Specified tests undertaken by the group audit team
19					
South Essex Homes Limited	2.3%	0%	Scrutton Bland	Analytical review of financial statements prepared by the component entity assessed against expectations and prior year amounts.	N/A

OVERALL AUDIT STRATEGY

Risks and planned audit responses

For the financial statements audit, under International Standard on Auditing (ISA) 315 “Identifying and assessing the risks of material misstatement through understanding the entity and its environment”, we are required to consider significant risks that require special audit attention.

In assessing a risk as significant, we exclude the effects of identified controls related to the risk. The ISA requires us at least to consider:

- Whether the risk is a risk of fraud
- Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention
- The complexity of transactions
- Whether the risk involves significant transactions with related parties
- The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty
- Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

For the use of resources audit, the NAO has provided information on potential significant risks such as:

- Organisational change and transformation
- Significant funding gaps in financial planning
- Legislative or policy changes
- Repeated financial difficulties or persistently poor performance
- Information from other inspectorates and review agencies suggesting governance issues or poor service performance.

We consider the relevance of these risks to the Council in forming our risk assessment and audit strategy.

Internal audit

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

We understand that internal audit reviews have been undertaken across a range of accounting systems and governance subjects. We will review relevant reports as part of our audit planning and consider whether to place any reliance on internal audit work as evidence of the soundness of the control environment.

Fraud risk assessment

We have discussed with management its assessment of the risk that the financial statements may be materially misstated due to fraud and the processes for identifying and responding to the risks of fraud.

Management believe that the risk of material misstatement due to fraud in the Council’s financial statements is low and that controls in operation would prevent or detect material fraud. We are informed by management that there have not been any cases of significant or material fraud to their knowledge.

We are required to discuss with those charged with governance their oversight of management’s processes for identifying and responding to risks of all fraud.

We expect Audit Committee Members, as those charged with governance, to let us know if there are any actual, suspected or alleged instances of fraud of which they are aware.

KEY AUDIT RISKS AND OTHER MATTERS

Key: ■ Significant risk ■ Normal risk

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p>Management override</p> <p>21</p>	<p>The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.</p> <p>Under Auditing Standards (UK and Ireland) 240, there is a presumed significant risk of management override of the system of internal controls.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. • Review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. • Obtain an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual. 	Not applicable.
<p>Revenue recognition</p>	<p>Under auditing Standards there is a presumption that income recognition presents a fraud risk. For local authorities, the risks can be identified as affecting the accuracy and existence of income.</p> <p>In particular, we consider there to be a significant risk in relation to the existence of fees and charges recorded in the Comprehensive Income & Expenditure Statement.</p>	<p>We will test an increased sample of fees and charges to ensure income has been recorded in the correct period and that all income that should have been recorded has been recorded.</p>	Not applicable.

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p>Property, plant and equipment valuations</p> <p>22</p>	<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 re-valuation programme, all car parks, leisure centres, public toilets, shelters and theatres, along with a number of other categories of asset have been re-valued in 2016/17. Upon review of the revaluation schedules for these assets, the upwards revaluations were seen to total £23m and downwards revaluations totalled £17m. We concluded that there is a significant risk of material misstatement of asset values.</p> <p>2016/17 is also the first year in which the Council has used the current valuers, of which we have no prior experience, which increases the associated audit risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> Review the instructions provided to the valuer and review the valuer's skills and expertise in order to determine if we can rely on the management expert Confirm that the basis of valuation for assets valued in year is appropriate based on their usage Confirm that an instant build modern equivalent asset basis has been used for assets valued at Depreciated Replacement Cost. 	<p>We will review independent data that shows indices and price movements for classes of assets against the percentage movement applied by the Council.</p>

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p>Changes in presentation of the financial statements</p>	<p>The Code requires a change to the presentation of some areas of the financial statements. This includes:</p> <ul style="list-style-type: none"> • Change to the format of the Comprehensive Income and Expenditure Statement (CIES) • Change to the format of the Movement in Reserves Statement (MIRS) • New Expenditure and Funding Analysis (EFA) note • Change to the Segmental Reporting note • New Expenditure and Income analysis note. <p>These changes will require a restatement to the 2015/16 CIES.</p> <p>There is a risk that these presentational changes are not correctly applied in the financial statements.</p>	<p>We will review the draft financial statements and check these against the CiPFA Disclosure Checklist to ensure that all of the required presentational changes have been correctly reflected within the financial statements.</p>	<p>Not applicable.</p>

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p>Pension liability assumptions</p> <p>24</p>	<p>The net 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 is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.</p> <p>There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Agree the disclosures to the information provided by the pension fund actuary. • Contact the administering authority and request confirmation of the controls in place for providing accurate membership data to the actuary • Review the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data. 	<p>We will agree the disclosures to the report received from the actuary.</p> <p>We will use the PwC consulting actuary report for the review of the methodology of the actuary and reasonableness of the assumptions.</p>

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - USE OF RESOURCES

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p>Sustainable finances</p> <p>25</p>	<p>The latest Medium Term Financial Strategy to 2020/21 has identified radical changes to Local Government Finance with the moves to 100% localisation of business rates and the ending of Revenue Support Grant. The MTFs has also taken account of expected annual inflationary and pay award pressures, impact of interest rates, the on-going effect of existing policies, pressures and growth in priority services.</p> <p>Budget gaps have been identified in 2018/19 (£10.3 million), 2019/20 (£5.1 million) and 2020/21 (£7.5 million), this is after the assumption that £6.9m savings will be achieved.</p> <p>Delivering the required savings from 2017/18 will be a challenge and is likely to require implementation of difficult decisions around service provision and alternative delivery models. There is a significant risk that this will not be achieved, impacting on the financial sustainability of the Council in the medium term.</p>	<p>We will review the assumptions used in the Medium Term Financial Strategy and assess the reasonableness of the cost pressures and the amount of Government grant reductions applied.</p> <p>We will review the delivery of the budgeted savings in 2016/17 and the plans to deliver the identified savings for 2017/18.</p> <p>We will also review the strategies to close the budget gap after 2017/18.</p>	<p>We shall review core grant data published by central government.</p>

INDEPENDENCE

INDEPENDENCE

Under Auditing and Ethical Standards, we are required as auditors to confirm our independence to ‘those charged with governance’. In our opinion, and as confirmed by you, we consider that for these purposes it is appropriate to designate the Audit Committee as those charged with governance.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to have a bearing on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. The procedures require that engagement leads are made aware of any matters which may reasonably be thought to bear on the firm’s independence and the objectivity of the engagement lead and the audit staff. This document considers such matters in the context of our audit for the period ended 31 March 2017.

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

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement lead and audit staff is not impaired. These policies include engagement lead and manager rotation, for which rotation is required after 5 years and 10 years respectively.

INDEPENDENCE - ENGAGEMENT TEAM ROTATION

SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED
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LISA CLAMPIN- Engagement lead	3
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ALISON LANGRIDGE - Project manager	5
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ANDREW BARNES - Project manager (Maternity Cover)	1
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Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.

FEES

FEES SUMMARY

Our proposed fees, excluding VAT, for the year ending 31 March 2017 have been set at the scale fees proposed by the PSAA. These are:

	2016/17 Proposed fee £	2015/16 Actual fee £
Code audit fee	142,816	142,816
Certification fee (Housing benefits subsidy)	21,284	22,226
Total code audit and certification fees:	164,100	165,042
Fees for non audit services - audit related (see below)	10,500	12,000
Fees for non audit services - other (see below)	1,200	6,000
TOTAL FEES	175,800	183,042

NON AUDIT SERVICES FEES ANALYSIS

£

Audit related services:

Teachers Pensions certification fee	8,000
Pooled capital receipts certification fee	2,500
Total	10,500

Non audit service:

Audit Committee knowledge sharing session	1,200
Total	11,700

Billing arrangements

We will raise invoices for the Code audit fee on a quarterly basis, at £35,704 per quarter, from June 2016. Following our firm's standard terms of business, full payment will be due within 14 days of receipt of invoice. Fee invoices for other services, including the certification of the housing benefits subsidy claim, will be raised as the work is completed.

Amendments to the proposed fees

If we need to propose any amendments to the fees during the course of the audit, where our assessment of risk and complexity are significantly different from those reflected in the proposed fee or where we are required to carry out work in exercising our additional powers and duties, we will first discuss this with the Director of Finance & Resources. Where this requires a variation to the scale fee we will seek approval from PSAA. If necessary, we will also prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee. At this stage, nothing has come to our attention that would require us to seek approval to amend the scale fee.

Our fee is based on the following assumptions

The complete draft financial statements and supporting work papers will be prepared to a standard suitable for audit. All balances will be reconciled to underlying accounting records.

Key dates will be met, including receipt of draft accounts and working papers prior to commencement of the final audit fieldwork.

We will receive only one draft of the Statement of Accounts prior to receiving the final versions for signing.

Within reason, personnel we require to hold discussions with will be available during the period of our on-site work (we will set up meetings with key staff in advance).

APPENDIX I: MATERIALITY

CONCEPT AND DEFINITION

- The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.
- We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.
- Materiality therefore has qualitative as well as quantitative aspects and an item may be considered material, irrespective of its size, if it has an impact on (for example):
 - Narrative disclosure e.g. accounting policies, going concern
 - Instances when greater precision is required (e.g. senior management remuneration disclosures).
- International Standards on Auditing (UK & Ireland) also allow the auditor to set a lower level of materiality for particular classes of transaction, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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CALCULATION AND DETERMINATION

- We have determined materiality based on professional judgement in the context of our knowledge of the Council, including consideration of factors such as sector developments, financial stability and reporting requirements for the financial statements.
- We determine materiality in order to:
 - Assist in establishing the scope of our audit engagement and audit tests
 - Calculate sample sizes
 - Assist in evaluating the effect of known and likely misstatements on the financial statements.

APPENDIX I: MATERIALITY


Continued

REASSESSMENT OF MATERIALITY

- We will reconsider materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality if we had been aware.
- Further, when we have performed all our tests and are ready to evaluate the results of those tests (including any misstatements we detected) we will reconsider whether materiality combined with the nature, timing and extent of our auditing procedures, provided a sufficient audit scope. If we conclude that our audit scope was sufficient, we will use materiality to evaluate whether uncorrected misstatements (individually or in aggregate) are material.
- You should be aware that any misstatements that we identify during our audit, both corrected and uncorrected errors, might result in additional audit procedures being necessary.

UNADJUSTED ERRORS

- 29 In accordance with auditing standards, we will communicate to the Audit Committee all uncorrected misstatements identified during our audit, other than those which we believe are 'clearly trivial'.
- Clearly trivial is defined as matters which will be of a wholly different (smaller) order of magnitude than the materiality thresholds used in the audit, and will be matters that are clearly inconsequential, whether taken individually or in aggregate.
 - We will obtain written representations from the Audit Committee confirming that in their opinion these uncorrected misstatements are immaterial, both individually and in aggregate and that, in the context of the financial statements taken as a whole, no adjustments are required.
 - There are a number of areas where we would strongly recommend/request any misstatements identified during the audit process being adjusted. These include:
 - Clear cut errors whose correction would cause non-compliance with statutory requirements, management remuneration, other contractual obligations or governmental regulations that we consider are significant.
 - Other misstatements that we believe are material or clearly wrong.
-



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.



Report of the Chief Executive
to
Audit Committee
on
29th March 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

March 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.

Progress updates on the recommendations raised in the Annual Governance Report are reported to the Audit Committee twice a year in January and June.

2015/16 Annual Audit Plan - progress summary as at 17 March 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. 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 now complete.</p>	<p>Housing Pooled Capital Receipts grants claim and return certified in line with the deadline.</p> <p>Teachers' Pension grants claim and return to be audited by the 30 November 2016 deadline.</p> <p>Teachers' Pensions claim certified on 8 March 2017.</p>
Grants Report	Summary of our certification work completed on 31 March 2016 claims, to be issued by February 2017.	Reported drafted.	Grants Report to be presented to Audit Committee in March 2017.

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2016/17 Annual Audit Plan - progress summary as at 17 March 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 To be presented to the Audit Committee in 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 June 2017.	Work currently in progress.	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	Approach for VFM Conclusion: One criteria: In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to	Start date to be agreed.	Final Report to the Audit Committee Target issue date August 2017. VFM conclusion Target issue date August 2017.

Area of work	Scope / Associated deadlines	Status	Outputs / Date
	<p>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>		
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 and will be presented to the March 2018 Audit Committee.

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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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Report of Chief Executive

to

Audit Committee

on

29 March 2017

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

**Counter Fraud & Investigation Directorate:
Quarterly Status Report & Counter Fraud Strategy and Plan for 2017/18**

1. Purpose of Report

- 1.1 To update the Committee on the performance of the Counter Fraud & Investigation Directorate to date.
- 1.2 To present the Counter Fraud & Investigation Strategy & Work Plan for 2017/18 to the Committee for consideration.

2. Recommendation

- 2.1 **The Audit Committee notes the performance of the Counter Fraud & Investigation Directorate to date.**
- 2.2 **The Committee agrees the Counter Fraud Work Plan for April to June in year 2017/18.**

3. Performance

- 3.1 The Counter Fraud & Investigation Directorate (CFID) has made good progress in delivering the 2016/17 counter fraud work plan since April 2016.
 - **349** reports of suspected fraud have been received
 - **175** of those allegations have been closed as 'no fraud'
 - **95** investigations are still being conducted
 - **102** sanctions have been delivered in cases of proven fraud.
- 3.2 **Appendix 1** outlines the flow of cases into the Directorate so far since 1st April 2016.
- 3.3 This year the Directorate has made significant progress in its delivering its target of becoming a cost-neutral council service. The proceeds of crime recovered this financial year are £123k, 62% of our annual budget of £198k.

4. Fraud Risk Assessment

- 4.1 Local authorities have followed the Audit Commissions' 'Fighting Fraud Locally' strategy, which sought to define minimum standards for councils to use to ensure there was sufficient recognition of fraud in local government.
- 4.2 This strategy was reviewed in 2016 (after the demise of the Audit Commission) and was re-named '*Fighting Fraud & Corruption Locally*', developed with input from a number of bodies including the Cabinet Office, Home Office, Local Government Association and local authorities. The strategy highlights the most common fraud types faced by local government as:
- Housing Tenancy fraud
 - Procurement fraud
 - Insurance fraud
 - Social Care fraud
 - Blue Badge Scheme fraud
 - Revenues Fraud
 - National Fraud Initiative
- 4.3 The CFID annual strategy has always recognised these particular threats and proactive work has been undertaken to ensure our system of internal control was effective in protecting the council from fraud.
- 4.4 This year, specialists from the CFID will be conducting workshops across the council with all council service areas to understand and assess their individual risks from fraud and other economic crime.
- 4.5 Questionnaires will also be distributed to staff and Managers to comply with the UK Bribery Act (UKBA) and Countering Money Laundering programme of work.
- 4.6 These workshops will ensure that the emerging crime threats are captured and acknowledged by the business areas, as well as assisting in identifying opportunities to better protect the council with remedial action.
- 4.7 **Appendix 2** outlines the delivery of these workshops, as well as the scheduled annual tasks taken by the directorate in providing a consistent approach to fraud at the Council, such as assessments, policy reviews and training.
- 4.8 The plan is a working document. Where opportunities exist to conduct specific targeted proactive exercises on identified fraud risk areas, these opportunities will be brought back to Committee and included in the work plan.

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: Flow of casework into the Directorate
- Appendix 2: Counter Fraud Work Plan

Appendix 1 - Counter Fraud & Investigation Directorate
 Southend-on-Sea Borough Council Case Summary to February 2017

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

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 – 10/03/17)	53	137	120	39	349
Under investigation**	15	5	66	9	95
Closed**	22	7	94	52	175

****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	0	1	16	5	22
Prosecution Action	1	1	0	6	8
Tenancy Property Recovered	17	N/A	N/A	N/A	17
Right to Buy Closed	0	N/A	N/A	N/A	0
Blue Badge Recovered	N/A	N/A	8	N/A	8
Warning Issued	0	0	46	1	47
Disciplinary Action	0	N/A	0	0	0
No Further Action	51	4	20	91	166

Value of Proven Fraud re Closed Investigations

Prosecution	Formal Caution	Other Fraud Savings ¹	Properties Recovered
£142,864	£30,070	£250,211	17
Right to Buy Fraud Savings ¹	Tenancy Fraud Savings ¹	Money Recovered ²	TOTAL³
£0	306,000	£123,181	£729,145

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

² Money recovered from criminals by the Counter Fraud & Investigation Directorate

³ Total loss figure to the Council

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Appendix 2 - Counter Fraud & Investigation Directorate

Counter Fraud Work Plan for March 2017 to June 2017

Risk area	Tasks	Planned for	Current status
Council-wide	Plan Fraud Risk Assessment workshops in these areas: <ul style="list-style-type: none"> • Department for Place • Department for People • Department for Chief Executive 	March 2017	Meetings are planned with the Deputy Chief Executives and Director of Finance & Resources to plan the workshops. Briefings will also take place with each Director.
Council-wide	Conduct Fraud Risk Assessment workshops in these areas: <ul style="list-style-type: none"> • Department for Place • Department for People • Department for Chief Executive 	April 2017 – May 2017	Awaiting workshops.
Council-wide	UK Bribery Act (UKBA) Compliance Review. A questionnaire will be distributed to all Managers to ensure UKBA compliance.	April 2017	The questionnaire is written and is being installed into an online portal for distribution to the Managers in April.
Council-wide	Counter Money Laundering (CML) Compliance Review. A questionnaire will be distributed to all staff to ensure CML compliance.	April 2017	The questionnaire is written and is being installed into an online portal for distribution to staff in April.
Council-wide	Process the results from the Fraud Risk Assessment workshops & producing a report and action plan	June 2017	Awaiting workshops.
National Fraud Initiative, Data Matching Exercise	Investigate high level recommended data matches until the 2017 exercise is complete.	Will report progress made on quarterly basis	Results being assessed. Regular performance reporting will commence in June 2017.

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Southend-on-Sea Borough Council

Agenda
Item No.

10

Report of the Chief Executive

to

Audit Committee

on

29th March 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 10th January 2017. Any audits where the fieldwork is not substantially complete at this stage have been moved into the 2017/18 Audit Plan.

4. Audit Opinions and Themes

- 4.1 **Appendix 2** summarises the audit opinions from each audit completed during the year. This makes it easier to get an overall view of the strengths and weaknesses of the aspects of the Council's control environment audited this year.
- 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 the audit work completed since the last report to the Audit Committee in January 2017.
- 4.4 The second phase of the risk management review has been completed. Feedback has been provided to Corporate Management Team and a key group of staff including representatives from:
- Internal Audit as well as Policy, Engagement and Communication
 - the performance teams in each Department.

The final output from this audit will be a proposal setting out the action that can be taken across services to better align performance data more closely with risks in terms of indicating that a risk is materialising but also to provide assurances regarding specific controls. This will be presented to Corporate Management Team in due course.

4.5 The decision was taken to:

- review the status of the Social Care IT Case Management System project at the end of 2016
- revise the project delivery plan accordingly to provide time to fully complete the design and test of it before implementation.

Therefore, the additional work planned on this project will now be completed as part of the 2017/18 Audit Plan.

4.6 The Social Care Payments to Individuals and Providers report has also been moved to 2017/18 as this process is being designed as part of the Social Care IT Case Management System project.

4.7 The Pioneer Programme Board no longer exists therefore the audit, in this form, has been deleted. An audit has been included in the 2017/18 Audit Plan to undertake a risk assessment of the whole Integrated Commissioning function. This will be used to inform the audit work undertaken going forward.

4.8 A significant amount of work has been completed to understand the services and therefore, the risks being transferred to the Adult Social Care Local Authority Trading Company, Southend Care. This will be used to:

- produce an Audit Plan for the company
- inform the review of the arrangements the Council has established to monitor the performance of the company.

4.9 A number of draft reports are with the Audit Manager or Head of Internal Audit to review.

5. Performance Targets

5.1 With regards to the team's performance indicators:

- sickness absence remains low at 1.14 days per FTE compared to a target of under 5 days per FTE
- a draft has been produced for 82% of audits (i.e. the work is substantially complete).

Stakeholder surveys

5.2 A further three surveys have been undertaken this quarter. The cumulative results are summarised in **Appendix 4** and still show a high level of compliance with these aspects of the professional standards (with the lowest score on any question being 81%). There were no new themes arising from these surveys. Additional surveys will be undertaken covering the remaining audits, in due course.

5.3 **Appendix 5** then summarises the:

- actions Internal Audit has identified it needs to take in order to address the issues arising from the surveys undertaken so far, at all its clients (the Council, Castle Point Borough Council and South Essex Homes)

- current status of each action, with expected implementation dates where they are outstanding and apply to the Council.

5.4 The main themes relate to:

- designing arrangements to enable the team to better manage work allocated to contractors
- involving services more in profiling when work is planned for.

5.5 These issues reflect the reduced management capacity within the team over the last few years.

Resourcing

5.6 Since the last report to the Audit Committee, an Audit Manager has been appointed although he won't join the team until July. This will:

- significantly strengthen the overall management capacity of the service
- help address some of the service delivery issues discussed previously.

5.7 Another recruitment exercise is then planned for late spring / early summer, once the new recruits have been assimilated into the team, thus further reducing the service's reliance of external contractors.

6. Contract management

6.1 As the Audit Committee is aware, the combined Internal Audit Service and Counter Fraud & Investigation (CF&I) Directorate provide services for Castle Point Borough Council (the Council), Southend-on-Sea Borough Council (SBC) and South Essex Homes. The CF&I service is provided by Thurrock Council, with whom the Council and SBC have a shared service arrangement. Additionally, there is a shared service for Internal Audit with the Council, SBC and South Essex Homes. A Shared Service Board is now being created to:

- support these relationships
- provide a forum for strategic issues to be discussed by all partners involved, regarding the:
 - development and operation of these services
 - consistent and efficient provision of these services
 - potential to further develop these services.

6.2 SBC's Director of Finance & Resources is in the process of arranging the first meeting of the Board.

7. Corporate Implications

7.1 Contribution to Council's Aims and Priorities

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

7.2 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.

7.3 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.

7.4 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.

7.5 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.

7.6 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.

7.7 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 manager 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.

7.8 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.

7.9 Community Safety Implications and Environmental Impact

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

8. 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

9. Appendices

- Appendix 1 Internal Audit Plan 2016/17
- Appendix 2 Assurance Summary 2016/17
- Appendix 3 Audit Opinions and Themes:
- a • Partial Assurance
 - b • Audits Revisited
 - c • Other Audits and Grant Claims
 - d • School Audits Revisited
- Appendix 4 Stakeholder Surveys, Compliance with Professional Standards
- Appendix 5 Stakeholder Surveys Improvement Plan: Status Report

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Appendix 1: Internal Audit Plan 2016/17

Dept	Council activity and focus of audit work	Fraud risk	Status as at 10th March 2017
Managing the Business			
Aim: Excellent			
All	<p>Business Continuity</p> <p>To assess whether the Council has effectively analysed the results of Operation Meltdown and introduced the required improvements.</p>	No	Report issued February 2017.
All	<p>Complaints Handling</p> <p>To assess whether stage one and two complaints have been handled in compliance with the policy.</p>	No	Draft report to be produced.
All	<p>Corporate Procurement Strategy and Toolkit</p> <p>To assess whether the Corporate Procurement Strategy and Toolkit are fit for purpose and consistent within the overall set of Contract Management Framework documents.</p>	Yes	Report issued December 2016.
PL / PE	<p>Departmental Project Assurance Arrangements (New job)</p> <p>To assess the design and effectiveness of the departments arrangements for monitoring the deliver of significant projects.</p>	No	Moved to 2017/18 Audit Plan.
All	<p>Risk Management, Corporate and Service Plan Risks</p> <p>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.</p>	No	Report issued December 2016.
All	<p>Risk Management, Project Risks</p> <p>To assess whether project risks are properly understood and consistently defined in accordance with the Council's Risk Management Strategy and Toolkit.</p>	No	Report issued December 2016.

Appendix 1: Internal Audit Plan 2016/17

Dept	Council activity and focus of audit work	Fraud risk	Status as at 10th March 2017
All	<p>Risk Management</p> <p>To provide practice feedback on addressing the issues arising from the original work</p>	No	<p>Fieldwork complete and meetings booked to provide feedback to key stakeholders.</p>
Managing Service Delivery Risks			
Aim: Safe			
PE	<p>Social Care IT Case Management System Contract, Procurement</p> <p>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.</p>	Yes	<p>Report issued December 2016.</p>
PE	<p>Social Care IT Case Management System, Project Implementation Health Check</p> <p>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.</p>	No	<p>Report issued November 2016.</p>
PE	<p>Social Care IT Case Management System, Project Implementation, Children's Services</p> <p>To assess whether the project plan is implemented properly by the planned go live date.</p>	No	<p>Moved to 2017/18 Audit Plan - see comment in quarterly performance report.</p>
PE	<p>Adult Social Care Independent File Review</p> <p>To assess whether there is robust management review of adult social care files to ensure they met all required statutory and good practice requirements.</p>	No	<p>Deleted, see comment in quarterly performance report.</p>
PE	<p>Adult Social Care Services, Assessment of Personal Budgets</p> <p>To assess whether personal budgets paid by direct payments are valid, accurate and complete as per the client's assessed needs.</p>	Yes	<p>Report issued December 2016.</p>

Appendix 1: Internal Audit Plan 2016/17

Dept	Council activity and focus of audit work	Fraud risk	Status as at 10th March 2017
PE / PL	<p>Domestic Homicide Reviews</p> <p>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.</p>	No	Draft report to be produced.
PE	<p>Financial Monitoring of Direct Payments</p> <p>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.</p>	Yes	Report issued March 2017.
PE	<p>Safeguarding Child Sexual Exploitation Action Plan</p> <p>To work with management to ensure actions contained in the action plan are SMART.</p>	No	Feedback was provided to management on the action plan before it was finalised in June 2016.
PE	<p>Social Care Payments to Individuals and Providers</p> <p>To assess the robustness of the arrangements to ensure accurate social care payments are made covering one or more of the following:</p> <ul style="list-style-type: none"> • Residential care including Dynamic Purchasing system (Sprock) • Direct payments • Home care • Children's care. 	Yes	Moved to 2017/18 Audit Plan - see comment in quarterly performance report.
<i>Implementing Action Plans</i>			
PE	<ul style="list-style-type: none"> • Mental Health Direct Payments 	Yes	Report issued February 2017.
PL	<ul style="list-style-type: none"> • Licensing 	Yes	Report issued February 2017.
PE	<ul style="list-style-type: none"> • Safeguarding: Serious Case Review Action Plan Implementation 	No	Draft report with the Audit Manager to review.
PL	<ul style="list-style-type: none"> • Traffic Management Schemes implemented by Traffic Regulation Orders 	Yes	Report issued January 2017.

Appendix 1: Internal Audit Plan 2016/17

Dept	Council activity and focus of audit work	Fraud risk	Status as at 10th March 2017
Aim: Clean			
	No work planned		
Aim: Healthy			
PE	<p>Commissioning Public Health Services for 0-5 Year Olds</p> <p>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.</p>	No	Report issued December 2016.
PE	<p>Drug and Alcohol Commissioning Team Governance</p> <p>To evaluate the clarity and understanding of its objectives, role and reporting lines.</p>	No	Draft report with the Head of Internal Audit to review.
PE	<p>Public Health, Health Protection</p> <p>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.</p>	No	Report issued July 2016.
PL	<p>Leisure Services (Fusion) Contract Management</p> <p>To assess whether the Leisure contract is being effectively managed.</p>	Yes	Work in progress.
PE	<p>Pioneer Programme Board / Integrated Commissioning Team</p> <p>To map how the Pioneer Programme Board operates, including:</p> <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. 	No	Deleted, see comment in quarterly performance report.

Appendix 1: Internal Audit Plan 2016/17

Dept	Council activity and focus of audit work	Fraud risk	Status as at 10th March 2017
PE	<p>Adult Social Care Local Authority Trading Company</p> <p>To develop an internal audit risk assessment, Charter, Strategy and Audit Plan for 2017/18.</p>	Yes	<p>Research completed - see comment in quarterly performance report.</p> <p>Audit Plan and supporting documents to be produced.</p>
<i>Implementing Action Plans</i>			
PE	<ul style="list-style-type: none"> • Family Mosaic Contract Management 	Yes	Draft report with the Audit Manager to review.
PE	<ul style="list-style-type: none"> • Managing OFSTED Action Plans 	No	Report issued December 2016.
PE	<ul style="list-style-type: none"> • Reablement 	No	Work in progress.
PL	<ul style="list-style-type: none"> • The Forum Governance Arrangements 	No	Report issued March 2017.
Aim: Prosperous			
PL	<p>Airport Business Park</p> <p>To assess whether robust arrangements are in place to provide independent assurance regarding the future performance of the project.</p>	No	Fieldwork complete. Report being drafted.
PE	<p>Better Queensway</p> <p>To assess whether robust arrangements are in place to provide independent assurance regarding the future performance of the project.</p>	No	Draft report with the Head of Internal Audit to review.
PE	<p>Better Start Early Years (Big Lottery Grant over 10 years)</p> <p>To assess the adequacy of the governance arrangements, specifically relating to:</p> <ul style="list-style-type: none"> • clarity of deliverables • risks to the Council • roles and responsibilities • accountability for delivering grant terms and conditions. 	No	Deleted, see comment in January 2017 quarterly performance report.

Appendix 1: Internal Audit Plan 2016/17

Dept	Council activity and focus of audit work	Fraud risk	Status as at 10th March 2017
PE	<p>Corporate Procurement Team, Contract Letting</p> <p>To assess whether it operates in accordance with recognised professional standards and its own procedures by reviewing some contracts let by the team.</p>	Yes	Work in progress.
PE	<p>Corporate Procurement Team, Procure to Pay (P2P)</p> <p>To assess the effectiveness of the new arrangements introduced by the Corporate Procurement team to monitor compliance with P2P requirements.</p>	No	Draft report being finalised with client.
PE	<p>Housing Allocations</p> <p>To assess whether the Allocations Policy reflects good practice and is properly and consistently applied.</p>	Yes	Report issued December 2016.
CE	<p>Leases and Licences</p> <p>To assess whether lease and license records are complete, reviewed in a timely manner and all income due is collected.</p>	Yes	Work in progress.
PE	<p>Purchasing Cards (P Cards)</p> <p>To assess the robustness of arrangements for:</p> <ul style="list-style-type: none"> • issuing cards • monitoring and post authorising the spend. 	Yes	Report issued October 2016.
CE	<p>Right to Buy</p> <p>To assess whether the legal aspects of the transaction are processed properly and other Council services are notified of and amend their records accordingly.</p> <p>(This links to a review of the front end of the process at South Essex Homes)</p>	Yes	Report issued March 2017.
<i>Implementing Action Plans</i>			
PE	<ul style="list-style-type: none"> • Southend Adult College 	No	Draft report being finalised with client.

Appendix 1: Internal Audit Plan 2016/17

Dept	Council activity and focus of audit work	Fraud risk	Status as at 10th March 2017
Aim: Excellent			
PL	<p>Highways Contract, Processing Payments</p> <p>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.</p>	Yes	Interim feedback briefing memo provided to management.
PE / PL	<p>Works Contract Letting, St Helen's Roman Catholic School</p> <p>To assess whether the works contract was let properly, met the clients' expectations and delivered in budget.</p>	Yes	Report issued January 2017.
PE	<p>Section 75 Partnership Agreement, Integrated Equipment Service</p> <p>To assess whether Section 75 agreements clearly set out the service requirements and how the service will be managed on an on-going basis.</p>	Yes	Report issued December 2016.
PL	<p>Management of Works Contracts</p> <p>To assess whether works contracts are effectively managed.</p>	Yes	Draft report with the Head of Internal Audit to review.
Aim: All			
PL	<p>Cyber Security Governance</p> <p>To assess the effectiveness of arrangements in place to protect the Council from cyber attacks and other online vulnerabilities.</p>	Yes	Draft report with the Head of Internal Audit to review.
PL	<p>IT Data Security Policy Application</p> <p>To assess whether the relevant standards are met to ensure the Council's data is secure.</p>	No	Draft report being finalised with client.
PL	<p>IT Infrastructure and Asset Management</p> <p>To assess whether the on-going management of IT fixed assets ensures the IT infrastructure meets the Council's service needs.</p>	No	Report issued November 2016.

Appendix 1: Internal Audit Plan 2016/17

Dept	Council activity and focus of audit work	Fraud risk	Status as at 10th March 2017
PL	<p>IT Systems and Network Access Controls</p> <p>To assess the effectiveness of controls in place to restrict access to important Council system and network functions.</p>	Yes	<p>Terms of Reference produced.</p> <p>This work will be postponed until 2017/18, see comment in quarterly performance report.</p>
PL	<p>IT Change Management</p> <p>To assess whether there is an effective, corporate process for managing changes made to IT systems used by services.</p>	No	Fieldwork completed. Draft report being produced.
<i>Implementing Action Plans</i>			
PL	<ul style="list-style-type: none"> • Cleaning Services Contract Management 	Yes	Draft report with the Audit Manager to review.
PL	<ul style="list-style-type: none"> • Third Party Hosting 	No	Report issued March 2017.
CE	<ul style="list-style-type: none"> • Welfare Reform 	No	Report issued September 2016.
Key Financial Systems			
Aim: All Aims			
<p>To assess whether the key controls in each of the key financial systems effectively prevent or detect material errors on a timely basis so that this information can be relied upon when producing the Council's statement of accounts.</p>			
	Financial Systems 2015/16		
CE	<ul style="list-style-type: none"> • Accounts Receivable: General Debtors 	Yes	Report issued September 2016.
CE	<ul style="list-style-type: none"> • Accounts Payable 	Yes	Report issued September 2016.
CE	<ul style="list-style-type: none"> • Council Tax 	Yes	Report issued September 2016.
CE	<ul style="list-style-type: none"> • General Ledger 	No	Report issued September 2016.
CE	<ul style="list-style-type: none"> • Housing Benefits 	Yes	Report issued September 2016.
CE	<ul style="list-style-type: none"> • Income, Receipting and Banking 	Yes	Report issued September 2016.
CE	<ul style="list-style-type: none"> • Treasury Management 	Yes	Report issued September 2016.
	Financial Systems 2016/17		
CE	<ul style="list-style-type: none"> • Systems work required to support the audit of the financial statements 	Yes 62	Draft report with the Head of Internal Audit to review.

Appendix 1: Internal Audit Plan 2016/17

Dept	Council activity and focus of audit work	Fraud risk	Status as at 10th March 2017
CE	<ul style="list-style-type: none"> • Accounts Payable 	Yes	Fieldwork completed. Draft report to be produced.
CE	<ul style="list-style-type: none"> • Payroll 	Yes	Postponed until April 2017, see comments in quarterly performance report.
CE	<ul style="list-style-type: none"> • Accounts Receivable: Social Care Debtors 	Yes	Work in progress.
Grant Claims			
	To certify, in all significant respects, that the conditions attached to the grant have been complied with.		
PL	<ul style="list-style-type: none"> • Coastal Communities Fund 		Unqualified opinion given January 2017
PE	<ul style="list-style-type: none"> • Troubled Families Programme, Payments by Results Scheme Grant 		Report issued September 2016. Report issued January 2017 claim. Work in progress re March 2017 claim.
PL	<ul style="list-style-type: none"> • South East Essex Local Growth Fund 		Unqualified opinion given July 2016.
PL	<ul style="list-style-type: none"> • Highways Maintenance Challenge Fund 		Unqualified opinion given September 2016.
PL	<ul style="list-style-type: none"> • Local Transport Capital Block Funding 		Unqualified opinion given September 2016.
PE	<ul style="list-style-type: none"> • Disabled Facilities Grant 		Unqualified opinion given September 2016.
PL	<ul style="list-style-type: none"> • A127 Corridor Growth Scheme 		Unqualified opinion given September 2016.

Appendix 1: Internal Audit Plan 2016/17

Dept	Council activity and focus of audit work	Fraud risk	Status as at 10th March 2017
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	<p>Children's Services' Safeguarding Performance Indicators</p> <p>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).</p>	No	Interim report produced for management December 2016.
PE	<p>OFSTED Report Action Planning</p> <p>To support the service in producing a SMART action plan from the OFSTED inspection report.</p>	No	Work completed. Feedback taken into account in preparing final report for submission to OFSTED.
Aim: Prosperous			
PE	<p>Education Board</p> <p>To provide supportive, critical challenge as the new regime develops and is implemented.</p>	No	Interim feedback provided to management February 2017.
All Aims			
PL	<p>Fuel Cards</p> <p>To provide independent review, support and challenge to assist with the delivery of the groups' objectives and work programme.</p>		Complete.
CE	<p>Payroll</p> <p>To provide advice and support as the actions from the most recent Payroll audit are implemented.</p>		Complete.

Appendix 1: Internal Audit Plan 2016/17

Dept	Council activity and focus of audit work	Fraud risk	Status as at 10th March 2017
PE	<p>Action Planning</p> <p>A workshop was delivered to a group of staff from the Department of People on how to produce effective action plans.</p>		Delivered November 2016.
<p>To provide independent review, support and challenge to assist with the delivery of the groups' objectives and work programme.</p>			
	<p>Attendance at Groups</p> <p>To provide supportive, critical challenge as required</p>		
	<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.
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 10 March 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.	Yes	Work in progress.
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 	Yes	Fieldwork completed. Draft report being produced.
	<ul style="list-style-type: none"> • Leigh North Street Primary School 	Yes	Fieldwork completed. Draft report being produced.
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 	Yes	Report issued June 2016.
	<ul style="list-style-type: none"> • Chalkwell Hall Junior School 	Yes	Report issued March 2017.
	<ul style="list-style-type: none"> • Friars Primary School (Academy from 1/9/16) 	Yes	Report issued December 2016.
	<ul style="list-style-type: none"> • Hamstel Infant School (Academy from 1/9/16) 	Yes	Report issued December 2016.
	<ul style="list-style-type: none"> • Heycroft Primary School 	Yes	Report issued December 2016.
	<ul style="list-style-type: none"> • Hinguar Community Primary School (Academy from 1/9/16) 	Yes	Report issued December 2016.
	<ul style="list-style-type: none"> • Kingsdown Primary School 	Yes	Report issued December 2016.
	<ul style="list-style-type: none"> • Milton Hall Primary School 	Yes	Report issued December 2016.
	<ul style="list-style-type: none"> • Our Lady of Lourdes Catholic Primary School 	Yes	Booked for 29th March 2017.

Appendix 1: Internal Audit Plan 2016/17

Dept	Council activity and focus of audit work	Fraud risk	Status as at 10 March 2017
	<ul style="list-style-type: none"> • Seabrook College 	Yes	Report issued December 2016.
	<ul style="list-style-type: none"> • Sacred Heart Catholic Primary School 	Yes	Report issued September 2016.
	<ul style="list-style-type: none"> • St George's Catholic Primary School 	Yes	Report issued March 2017.
	<ul style="list-style-type: none"> • St Helen's Catholic Primary School 	Yes	Report issued March 2017.
	<ul style="list-style-type: none"> • St Nicholas School 	Yes	Report issued March 2017.
	<ul style="list-style-type: none"> • The Federation of Greenways Schools (Academy from 1/10/16) 	Yes	Report issued December 2016.

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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"> • Business Continuity Planning (Feb 2017) • 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) 	<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"> • Financial Monitoring of Direct Payments (Mar 2017) • Housing Allocations (Dec 2016) • Right to Buy (Mar 2017) • 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) • Third Party Hosting (Mar 2017) 	<ul style="list-style-type: none"> • Licensing (Feb 2017) • The Forum Governance Arrangements (Mar 2017) • Welfare Reform (Sept 2016) 	<ul style="list-style-type: none"> • Mental Health Direct Payments (Feb 2017)

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Appendix 2: Assurance Summary 2016/17

Grant Claims	Level of Assurance	
	Unqualified	With Qualification
	<ul style="list-style-type: none"> • Coastal Communities Fund (Jan 2017) • Troubled Families Programme, Payments by Results Scheme Grant (Sept 2016, Jan 2017) • 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) • St George's Catholic Primary School (Mar 2017) • St Helen's Catholic Primary School (Mar 2017) • ST Nicholas School (Mar 2017) 	<ul style="list-style-type: none"> • Chalkwell Hall Junior School (Mar 2017) • 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: Assurance and Themes

Assurance



Business Continuity

Objective

To assess whether the Council has effective arrangements in place to enable services (particularly critical ones) to continue to be provided in the event of a disaster occurring.

Themes

The Council has a working Business Continuity Plan (BCP) and Incident Management Strategy (IMS), which are broadly in line with the requirements of ISO 22301. There has not been a recent review of the BCP and certain aspects of it such as "Key Timing", still need to be established and entered up. Therefore, the BCP needs to be fully completed then both documents need to be formally approved.

At a corporate level, very limited staff resource is available to facilitate the on-going maintenance of the BCP and IMS. Furthermore, operational responsibility for Emergency Planning (EP) and its associated IMS, is handled separately, meaning there is no clear linkage between both plans.

Each department then has a BCP lead and is required to keep an up to date Business Impact Assessment (BIA), produced from a standard template, which contains the key information expected. There was evidence that some BIA's (but not necessarily the same ones) had been:

- updated following a six monthly review
- tested to ensure contacts listed were accurate.

Where BIA's have been revised, they had been forwarded to the Policy, Engagement and Communication Team. However, the central database has not been updated to reflect these or any revised service plans, since May 2015.

Operation Meltdown was a desktop exercise undertaken in October 2013 to test the resilience of the BCP. The IMS was not tested as part of this exercise. The results from this were used to enhance the BCP and promote the use of BIA templates within departments. However, it was identified that:

- there has been no corporate wide test since Operation Meltdown and no evidence of upgrades / updates to the corporate BCP based on recent events, tests or incidents
- two of the four key recommendations from Operation Meltdown have been partly addressed. As a result:
 - actions relating to recovery times for key systems, alternative locations on recovery, a new server room and reallocating the number of seats needed at the Tickfield Centre have been progressed
 - the BCP working group still needs to be reinstated to assist in sharing test results and best practice / lessons learned from incidents in year.

Appendix 3a: Assurance and Themes

Assurance



- suggested scenarios has been used to test the integrity of some BIAs, but there has been no corporate wide testing using different scenarios
- there is a need for a training programme, which could include an online training module for ease of delivery, as there has been no corporate wide training on BCP and the IMS since 2014.

The Civil Contingencies Act (CCA) 2004 requires tier 1 responders (such as the Council) to maintain and test these corporate documents, train staff and learn from the outcomes of any training or live incidents.

A fixed term contractor started in November 2016, to take this work forward. The actions arising from this report have been built into his work programme, which is due to be completed at the beginning of October 2017.

Number of actions agreed: 6

Financial Monitoring of Direct Payments

Objective

To assess whether there are robust financial monitoring arrangements in place to ensure payments made directly to clients are used to meet the assessed eligible needs and outcomes identified in Care Support Plans.

Themes

Direct Payments Policy and Client Agreements

The Council's arrangements for monitoring how direct payments are used, needs to be better defined. The Council's Self Directed Support, Best Practice Guidance' document (2010) lays out the change in policy direction towards 'putting people first' and giving service users choice and control in their lives. It states that "*all councils are required to have a process for checking whether the outcomes agreed in the support plans are being achieved*" but does not detail how this will be done. It also needs to be updated for recent changes in legislation.

There is need for greater clarity over the interdependencies and / or roles and responsibilities of the Department for People's Finance Team (Payments) and Locality Assessment and Review Teams, when managing and monitoring direct payments made directly to client bank accounts, to ensure:

- monies are appropriately spent to achieve the outcomes set out in care plans
- appropriate action is taken when issues or concerns are identified regarding the use of monies.

The service area has started to explore how the teams will work together going forward, to ensure the use of monies paid directly to clients is appropriately monitored and in line with care plans. These changes are to be formalised in a policy document to replace 'Self Directed Support, Best Practice Guidance'.

Appendix 3a: Assurance and Themes

Assurance



Direct payment agreements incorporate standard terms and conditions requiring clients to make quarterly returns accounting for all monies received with supporting evidence, such as receipts and invoices. The current standard could be clearer regarding some of the limitations attached to direct payment spend.

Carers awarded a one off payment are not consistently required to complete a direct payment agreement. As such, the Council may find it difficult to require carers to formally account for the use of these monies.

Monitoring Arrangements: Adult Direct Payment Returns

A well-designed monitoring form was available to guide staff when reviewing quarterly returns submitted by clients, which captures the individual key checks required by Finance Officers to confirm that direct payments are being appropriately managed. This was not in use and no regular monitoring of returns was taking place.

A systematic and robust process needs to be introduced for monitoring the use of direct payment monies to in particular:

- identify clients failing to submit returns and so prompt further enquiries.
- confirm payments are supported by the required documents (e.g. receipts) evidencing the proper use of the direct payment
- confirm assessed client contributions are being made, as these are essential to enable service user needs and / or outcomes to be met
- identify potentially accumulating surplus funds which can be clawed back if appropriate.

The service area took some proactive steps during the audit to identify those clients failing to submit quarterly monitoring returns in the current financial year. The intention being to prioritise these service users, for some targeted follow up work.

Children's Direct Payment Returns

There is a systematic process operating for monitoring children's direct payments. In particular:

- expected and actual payments are reconciled back to the Council's key financial system Agresso, to ensure they have been made correctly and discrepancies are properly investigated
- returns and supporting invoices are required and examined for each child receiving payments, to account for all spend within the quarter
- surplus funds and non-returns are referred back to the specialist social work team for challenge and / or further action.

This process could be improved further by:

- formally documenting it and getting it approved
- introducing independent management checks to confirm that the approved process for monitoring is being consistently applied

Appendix 3a: Assurance and Themes

Assurance



- making greater use of Civica (the Councils Electronic Document Management System) to automate the process (which is currently being explored).

Additionally, going forward procedures will be clear that any deviations from the agreed verification process will need prior approval from the relevant Director.

Declarations of interest

The Department for People's Finance team complete declarations of interest in line with the corporate process. Work is underway to 'lock down' permissions within Civica to ensure any potential conflicts are managed. This is more problematic in CareFirst although options to achieve this are being explored. Permissions will also need to be restricted appropriately on LiquidLogic once it has been implemented.

Number of actions agreed: 7

Right to Buy

Objective

To assess whether Legal Services operating arrangements enable Right to Buy transactions to be processed in a timely manner.

Themes

Background

Recent presentations given by the National Crime Agency have:

- highlighted that there is a risk of money laundering associated with the Right to Buy Scheme
- stated that up to £16billion could be laundered through Local Authorities by Organised Criminal Networks who offer potentially vulnerable tenants funds to buy their properties.

In 2015/16, South Essex Homes referred 30 Right to Buy applications to Southend-on-Sea Borough Council's (the Council) Legal Services for completion. The sum total of the value of these sales, should they all complete, is £2.9m.

Application Process

The Right to Buy process transfers from South Essex Homes (the company) to the Council's Legal Services once a tenant has accepted the S125 Offer Notice. Legal Services then liaises with the buyer's legal representatives to progress the sale to completion.

No issues were found with Right to Buy cases reviewed, due to the experience of the staff undertaking the work rather than the Council clearly defining the tasks to be completed and evidenced, when processing applications. Therefore, the checklist currently used by the Legal Assistant, should be developed further so that it directs the workflow of the Right to Buy process by:

Appendix 3a: Assurance and Themes

Assurance



- setting out what:
 - actions staff should take once they receive a Right to Buy case from the company
 - independent checks should be undertaken during this process, including those Legal Services has reported as inherent in the current system, to confirm that this work is in line with the Council's requirements
- providing space for staff to evidence when each task is completed.

The company require sales to be completed within a 12 month period from the issue of the S125 Offer Notice. This target was achieved in all bar one of the cases, where the delay was only due to the buyer. Legal Services notify the company promptly once a sale has completed, allowing the rent account to be adjusted in good time.

The Council does protect its rights under The Housing Act 1985 (amended) by placing appropriate charges on properties sold as allowed for by the Act. Even though there is minimal risk to the Council, Legal Services checks to ensure the charge is registered with the Land Registry but evidence of this, was not brought to our attention during the audit.

Money Laundering

Legal Services undertakes suitable checks to ensure the buyers legal representatives are appropriately qualified and registered with a relevant professional body. These regulatory bodies require members to be compliant with Money Laundering Regulations.

Where properties are purchased using a mortgage, the lender would undertake the normal checks on the applicant (e.g. identity, income, credit history etc.). The legal representative then has a duty to check that the funds are being provided from an appropriate and legitimate source. For cash purchases, Legal Services is reliant on the legal representative check alone. Although there is no legal obligation to do so, the Council has a responsibility to ensure that it is not used as a vehicle to launder the proceeds of crime. It is best practice to use the Counter Fraud and Investigations Directorate to undertake pro-active financial checks for cash purchases as part of the application process, in line with those undertaken by financial services, including lenders.

Although Legal Services checks to ensure funds have received come from an appropriate bank account, it is done once the money has been received and the property sold. The details of the account to be used to transfer the funds should be requested in the opening correspondence with the legal representative. It should also be stated that the sale won't complete if money is received from elsewhere.

Number of actions agreed: 5

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Appendix 3b: 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.

Mental Health Direct Payments



Original Objective and Background

The focus of the work was to identify control weaknesses that led to allegations of fraud associated with direct payments awarded to clients with mental health difficulties. This focused on the arrangements between the Council, South Essex Partnership University NHS Foundation Trust (SEPT) and Vibrance¹ (June 2014).

A subsequent proven direct payment fraud identified in January 2015, resulted in the dismissal and prosecution of a Council employee. This fraud related to the misappropriation of surplus monies on client accounts held by Vibrance.

The follow up work undertaken to assess the progress made in implementing recommendations from the original allegations of fraud, was extended to include the actions required to strengthen controls relating to the recovery of surplus funds managed by Vibrance (June 2015).

This work covers the progress made in implementing recommendations from the original June 2014 report and the later June 2015 report.

At the time of the audit, officers had signed off all the agreed actions as being implemented.

In 2015/16, just over £3.5 million of spend was processed through this system.

Results

Fully implemented	Substantially implemented	Partially implemented	Not implemented	Agreed action closed
2	0	1	12	1

¹ Vibrance; a registered charity that Southend-on-Sea Borough Council engaged to provide advice, support and payroll services to clients who express an interest in, and have been assessed as meeting the eligibility criteria for a Direct Payment.

Appendix 3b: Audits Revisited

Summary

The Council's Finance Authorisation Meeting's² (the Panel) terms of reference now gives greater clarity over its role. Introducing a segregation of duties when setting up clients on the Agresso (financial management) system has improved the arrangements, which aim to ensure the validity of direct payments made.

As the audit progressed, some action was taken by council officers and SEPT to improve the working arrangements for independently checking and authorising proposed care packages before submission to the Council's Panel. This was a particular issue identified from the initial piece of work undertaken in June 2014 and followed up in June 2015.

The Council potentially remains at risk from losses of fraud and / or error from other areas as not all agreed actions have not yet been completed in relation to improving processes and controls that directly contributed to the:

- allegations of fraud associated with mental health clients (June 2014 report)
- subsequent proven misappropriation by a Council employee of surplus monies managed by Vibrance (June 2015 report).

Other areas that still need to be addressed to improve processes thereby reduce the likelihood of fraud or error, include:

- making clear to staff the checks required and by whom, before a care package is input and authorised on Care First (the social care IT case management system)

Random testing particularly identified that not all care packages input into Care First and recommended by SEPT, are supported by evidence that the Council's Finance Authorisation Panel approved the packages.

- improving arrangements for independently verifying that the same officers are not entering care packages on Care First as well as authorising them

This is required as it is not possible to segregate these duties electronically. Going forward, there are plans to ensure this segregation of duties is enforced through improved work flow arrangements in the new IT Case Management System, LiquidLogic.

- clarifying with Vibrance the Council's expectations of how the day to day service will operate. This should explicitly define the:
 - arrangements for the:
 - Council to approve new providers before Vibrance recommends them to clients
 - regular and consistent issue of financial statements to clients, and how challenges of those received back from clients will be reported.
 - frequency and content of reports that should be produced about the activity on client accounts to enable the Council to:
 - confirm monies are being properly and accurately accounted for
 - appropriately claws back surplus funds.

² The Panel (or Finance Authorisation Meeting) "receives and consider applications for social care funding for services for adults over the age of eighteen and / or carers who are the responsibility of Southend Borough Council".

Appendix 3b: Audits Revisited

- making clear to staff how the accuracy and completeness of reports provided by Vibrance detailing the surplus monies held on the Council's behalf, are to be validated and issues arising from them, dealt with.

The service area has provided the Deputy Chief Executive (People) and the Director of Adult Services and Housing with a detailed paper identifying the progress in addressing the outstanding recommendations since the initial audit work started in August 2016.

Licensing



Original Objective

To assess whether licence applications are effectively and promptly processed and all due income is received.

Results

Fully implemented	Substantially implemented	Partially implemented	Not implemented	Agreed action closed
1	0	2	1	0

Summary

Some progress has been made in addressing the issues raised in the original report but further work is still required.

All licenses are now checked by the Regulatory Services Manager, with additional spot checks being carried by the Group Manager every six months.

Historical, parked licensing debts are being proactively chased. As at November 2016, £20k had been collected from 77 premises licence holders and licenses are being suspended if payment is not forthcoming. A target needs to be set for completing the review of these older debts, then a decision made on whether any need to be written off because they are uncollectable or uneconomical to collect. More regular liaison with the Accounts Receivable team is helping to manage current debts more effectively.

The service is still not able to reconcile its records of debts due against corporate records of income received. As part of the audit, discussions were held with Financial Services to establish how to progress this. As a result, immediate action was taken by with Financial Services to:

- set up some standard reports to provide the information required about payments received, to help enable the reconciliation process
- provide appropriate access to the cash receipting system
- make staff available to support the Licensing Service in completing the reconciliations for 2016/17.

Appendix 3b: Audits Revisited

Further work is being done with Financial Services to tailor these reports so as to make the reconciliation process as efficient as possible.

As part of exercise to set up the regular reconciliation process, it will also be necessary to:

- confirm that the database of licences issued is complete and accurate before fully reconciling income expected to licences issued for 2016/17
- document and retain the records of the reconciliation process.

For 2017/18, the reconciliation should be completed on a monthly / quarterly basis.

Not all Licensing policies include version control details, which will be introduced as they are updated.

The Forum Governance Arrangements



Original Objective

To assess whether appropriate arrangements, processes and agreements are in place or being developed to establish and then manage the new shared central library building known as the Forum.

Results

Fully implemented	Substantially implemented	Partially implemented	Not implemented	Agreed action closed
1	1	2	3	0

Summary

The progress made in addressing the issues raised in the original report is disappointing. It is noted, that the Council is only a one-third owner of the Southend-on-Sea Forum Management Limited (SoSFML), which is a separate legal entity. However, given the basic nature of the governance issues raised, the Council needs to assess the organisational risk to it, should SoSFML not agree to put such arrangements in place.

So, to date, action has been taken to:

- clarify the position should it be decided to rotate the company treasurer's role. Although this is not planned, sufficient notice would be given to make the appropriate arrangements to take this over
- produce a broad range of information on the performance and operation of the Forum building which is regularly and formally reported upon to the:
 - Director of Culture, Tourism and Property
 - respective Departmental Management Team (DMT).

Appendix 3b: Audits Revisited

It would still be useful to obtain some management information regarding compliance with Financial Regulations and progress made in delivering the original intended benefits from the new library.

Further work is still required, in order to:

- clarify the legal and accounting implications and steps necessary for any partner to withdraw from the partnership and which governance document this should be set out in
- prepare and present a report to the SoSFML Board on the basis of apportioning shared running costs and the method for calculating each basis of apportionment
- provide at least, an annual report to Council from Councillors serving as directors on the SoSFML Board, on the actions undertaken by them whilst representing the Council in this capacity (as required by the Local Authorities (Companies) Order 1995). This report should include a summary of SoSFML financial and non-financial activity over the previous 12 months. This may also be an issue for other such companies Councillors serve as directors on
- update the Financial Regulations to explicitly require segregation of duties in respect of ordering, receiving and paying for goods and services.

Third Party Hosting



Original Objective

To evaluate whether the opportunities to host services with third parties are robustly assessed and then the selection of, and agreements with, such third parties are effectively planned and managed.

Results

Fully implemented	Substantially implemented	Partially implemented	Not implemented	Agreed action closed
4	0	1	1	0

Summary

Overall, good progress has been made to address the issues raised in the original report. As a result:

- a formal Third Party Hosting Policy has been established which complies with good practice guidance and clearly defines its required standards for suppliers that host the Council's data including the:
 - circumstances under which third party hosting may be considered
 - minimum IT Data Security and Information Governance requirements that must be met before new contracts can be let.

Appendix 3b: Audits Revisited

- an exercise has been conducted to identify all existing third-party hosted contracts (both known and previously unknown). Where necessary, additional information was then requested from suppliers to satisfy the Information Governance Meeting, that these contracts were compliant with the new policy
- the Information Governance Meeting has been briefed on the updated standards and it now has a standard agenda item to consider new third party hosted contracts.

Action is being taken:

- to develop a procedure that requires all newly commenced procurement projects over £25k, to be reported to ICT, so there can be independent scrutiny over whether third parties are intending to host the Council's data
- jointly by ICT and the Corporate Procurement team, to establish a method of monitoring and demonstrating that approved suppliers continue to comply with the Council's Third Party Hosting Policy.

Appendix 3c: Other Audits and Grant Claims

Highways Contract, Processing Payments

The focus of this work was to assess whether payments made for works under the NEC3 Term Service Contract with Marlborough Surfacing (let from 1st April 2015), were accurate and properly authorised in line with Contract Procedure Rules / Financial Regulations.

Examining a random sample of invoices paid during 2015/16 and associated documents and processes identified that:

- work was procured in line with defined good practice processes established by the Department for Place when the contract was let. In particular:
 - Service Manager Instructions (SMI) were appropriately raised to obtain prices for work
 - the Insights Symology system which interfaces with the contractor's systems was used to instruct the contractor to undertake work
 - corresponding blanket orders for work were raised in the Council's key financial system Agresso.
- delegated authorities for authorising works orders were not established in the Symology system at the time the audit work was undertaken. As a result:
 - officers had authorised works orders above the limits defined by senior management
 - a segregation of duties could not be demonstrated between the assessment, approval and checking of works done.
- arrangements and accountabilities for ensuring the right payments were made for works done was not clearly understood by officers. As such, evidence was not available to confirm the sample payments were appropriate and accurate.

Numerous officers from different teams within the Department for Place are required to instruct the contractor to undertake work, making the contract complex to manage particularly around ensuring works are properly procured and accurately paid for. Considerable time was being invested at the time of the audit work to develop the functionality of the Insights Symology system to automate tasks and controls to:

- make the contract management processes more efficient
- ensure proper accountability for procuring and approving works for payment.

Current status

Since the issue of the interim report, Internal Audit has continued to liaise with officers in the Department for Place as processes have been developed. The following key improvements to systems and processes have been implemented:

- Approved delegated authorities for authorising works orders now operates in Symology.
- Officers are required to post inspect 10% of all works, with Symology automatically generating the sample works to be inspected.
- Officers have been reminded of their responsibilities for signing off and confirming charges for works, they notify to the contractor.

Appendix 3c: Other Audits and Grant Claims

A further audit has been scheduled in 2017/18 to confirm the above improvements have been effectively implemented and the processes for procuring work and making payments is now robust.

Coastal Communities Fund Grant

Purpose of funding

The purpose of the Coastal Communities Fund is to support economic development in our coastal communities with particular focus on promoting sustainable economic growth and jobs.

Objective

To confirm that the grant paid is only used for the purposes that a capital receipt may be used for in accordance with regulations made under section 11 of the Local Government Act 2003.

Opinion: Unqualified

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: January 2017, claim signed off

This was the fourth PBR claim made under the DCLG's new expanded programme.

Of the 34 claims due to be made, three had been independently reviewed by the Group Manager which was in line with previous protocols agreed under Phase 1 of the programme.

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

Appendix 3c: Other Audits and Grant Claims

- families met the eligibility criteria for entry to the expanded programme for all the randomly selected files reviewed
- the validity of PBR claims for continuous employment or significant and sustained progress, as defined by the Council's agreed Outcome Plan.

A further claim was reviewed as it was re-submitted having been withdrawn from the September 2016 claim to the DCLG. This claim was a Child in Need (CIN) case which had not previously been formally closed as a CIN by the social care team as required by the Council's Outcome Plan.

At the time of the January 2017 DCLG claim, the case had been closed but the six months closure period also required by the Outcome Plan to demonstrate significant and sustained progress, had not elapsed. The claim was withdrawn again and is due for further review and re-submission in April 2017.

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Appendix 3d: School Audits Revisited

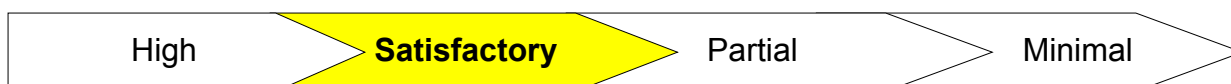
Purpose of these audits

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.

Chalkwell Hall Junior School



Results

Fully implemented	Substantially implemented	Partially implemented	Not implemented	Unable to retest
10	5	4	0	3

Summary Findings

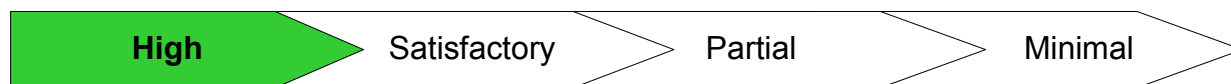
The School has made good progress in addressing the issues raised in the original report and therefore, strengthening its governance, information and asset management and financial management and reporting arrangements. It was not possible to test a few actions, as those particular circumstances have not arisen since the audit was undertaken (e.g. there have been no changes to supplier details). However, the procedures are in place should the circumstances arise.

Work is now underway to:

- develop an action plan to address improvement opportunities highlighted by the annual assessment of the Governing Body's performance
- complete the desktop testing of scenarios with the Senior Leadership Team so all staff are aware of the Business Continuity Plan process
- fully implement the new Asset Management System, which involves allotting new numbers to all assets and ensuring serial numbers are properly recorded on it
- strengthen the School's purchasing arrangements by:
 - requiring someone independent of the person raising the order, to sign it to confirm the goods have been received in a good condition
 - retaining order forms and good receipt notes, attaching both to the Purchase Order Form and invoice paperwork.
- develop contract management guidelines in line with Southend-on-Sea Borough Council's Contract Procedure rules.

Appendix 3d: School Audits Revisited

St George's Catholic Primary School



Results

Fully implemented	Substantially implemented	Partially implemented	Not implemented	Agreed action closed
7	0	2	0	0

Summary Findings

The School has made considerable 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.

With regard to the outstanding issues:

- the School still needs to complete the tendering exercise for its Catering Services and let a contract in accordance with Contract Procedure Rules
- better evidencing is required of the work done by both staff and Governors when:
 - confirming the inventory is accurate and complete
 - undertaking spot checks to confirm assets still exist.
- the Asset Register still needs to be independently checked, annually, to confirm it is a true and accurate record of the Schools assets.

St Helen's Catholic Primary School



Results

Fully implemented	Substantially implemented	Partially implemented	Not implemented	Agreed action closed
18	2	2	0	0

Summary Findings

The School has 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.

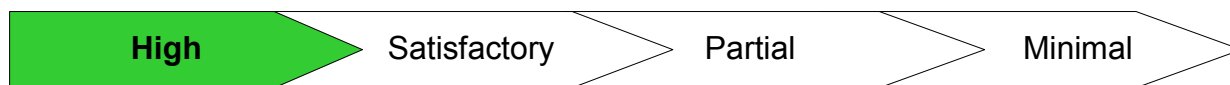
All that remains for the School to do is:

- approve the new Governor's Role Description
- complete the 'weeding' exercise of both electronic and hardcopy information

Appendix 3d: School Audits Revisited

- finish defining and documenting its contract management approach.

St Nicholas School



Results

Fully implemented	Substantially implemented	Partially implemented	Not implemented	Agreed action closed
15	2	2	0	0

Summary Findings

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

In order to complete the work on its governance arrangements, the School just needs to plan to provide an annual report on whether it has delivered against its Terms of Reference.

All the actions relating to information and asset management have been implemented, with the exception of undertaking regular:

- weeding exercises of both electronic and hardcopy information in line with the requirements of the Record Management Policy
- planned tests of the Managing Critical Incidents Policy.

Finally, the only outstanding action to take regarding the financial management and reporting arrangements, relates to documenting a contract management approach.

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Appendix 4: Stakeholder Surveys, Compliance with Professional Standards

1. Setting up and planning the audit (PSIAS 1200 / 2200)		
1.1	Did we show a good level of knowledge and understanding of your service when discussing the potential scope and objective to be covered by the audit before fieldwork took place?	81%
2. Performing the audit (PSIAS 2300)		
2.1	Did we work effectively with you when doing the audit to minimise the impact on your service?	100%
2.2	Were we able to talk knowledgeably with you about information provided to us and queries we had during the audit?	100%
3. Communicating results (PSIAS 2400)		
3.1	Did we keep you informed of the progress of the audit and issues arising from the work in timely manner?	88%
3.2	Did we effectively explain to you where we felt action was required to improve your arrangements and why?	94%
3.3	Was the report fair and reflective of the work done by audit and the issues found as discussed with you?	93%
4. Independence and Objectivity (PSIAS 1100)		
4.1	Did we provide relevant evidence to back up our findings if required?	86%
4.2	At the end of the audit, did you understand the rationale for the overall opinion given?	100%
5. Improving governance, risk management and control processes (PSIAS 2100)		
5.1	Did we explain how the actions you agreed to take would strengthen your operational arrangements and why that is important?	100%
6. Managing the Internal Audit Activity (PSIAS 2000)		
6.1	Do you think internal audit adds value to the Council?	94%

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Appendix 5: Stakeholder Surveys Improvement Plan: Status Report

Action	Current Status	Deadline
1. Setting up and planning the audit (PSIAS 1200 / 2200)		
Increase the in house management time allocated to each contracted out audit to brief and support the contract staff undertaking the work.	This has been actioned for the remainder of the 2016/17 Audit Plan and the 2017/18 Audit Plan.	Completed.
Discuss different options for resourcing 2017/18 Audit Plan in the short term and the impact that might have on coverage as part of the audit planning process.	This was not a Council issue but has been discussed and resolved with the relevant senior management team.	Completed.
Ensure all key staff involved in follow up audits have an opportunity to discuss the timing of the work and are clear what it involves.	Time has been allocated to liaise with key staff about this.	April 2017.
Produce a standard terms of reference for this type of work.	This has been produced and is now used when setting up follow up audit reviews.	Completed.
2. Performing the audit (PSIAS 2300)		
Ensure contracted out work is allocated to staff with the required expertise to undertake the work.	As soon as Audit Plans for individual clients are approved, discussions will be had with the respective contractors about type of staff required to deliver specific jobs.	April 2017.
Arrange quarterly meetings with relevant staff to confirm forthcoming audits and staff allocated to them.	<p>The Chief Executive and Deputy Chief Executives will be briefed each quarter on this and provided with information that can be taken to their Departmental Management Team meetings.</p> <p>Meetings will be arranged with other key staff, to discuss the proposed work profile for the first six months.</p>	April 2017.

Appendix 5: Stakeholder Surveys Improvement Plan: Status Report

Action	Current Status	Deadline
3. Communicating results and Improving governance, risk management and control processes (PSIAS 2400 and 2100)		
Produce an contractor audit delivery monitoring schedule specifically for managing contracted out audits which includes: <ul style="list-style-type: none"> • agreeing timelines with contract staff for the completion of the work • triggers to identify delays in finalising work and producing reports • details of when the contractor will feed back the findings from the work and discuss potential opportunities to strengthen processes and controls as a result of this, with company staff. 	Timelines and delivery dates for the 2017/18 Audit Plan will be mapped and agreed after it has been approved by the Audit Committee.	April 2017.
	The contractor audit delivery monitoring schedule will be produced as part of this process.	April 2017.
Use this information to keep auditees informed of when work is expected to be delivered.	This will be discussed with Deputy Chief Executives and the Chief Executive at quarterly meetings and subsequently shared with Departmental Management Teams.	For 2017/18 Audit Plan.
Carry out exit meetings for all audits, with the relevant staff in attendance.	Current contractors have been informed of the need to do this with immediate effect.	Implemented.
	The delivery of this will be checked using feedback from stakeholder surveys, which will be included in Quarter Performance Reports to the Audit Committee.	Refer Audit Committee reporting cycle.
Build triggers into the audit approach that requires auditors to keep staff informed of when reports can be expected and if there are delays in producing them.	The audit delivery monitoring schedule will be amended to include this requirement and will be applied to current, outstanding audits.	April 2017.
	The delivery of this will be checked using feedback from stakeholder surveys, which will be included in Quarter Performance Reports to the Audit Committee.	Refer Audit Committee reporting cycle.

Appendix 5: Stakeholder Surveys Improvement Plan: Status Report

Action	Current Status	Deadline
4. Independence and Objectivity (PSIAS 1100)		
Produce a simple hand-out that explains what the audit opinions are and how they are arrived at that can be shared with staff being audited.	This will be produced for use when completing audits within the 2017/18 Audit Plan.	April 2017.
Ensure reasons for the audit opinion on individual jobs is also explained at the exit meeting.	This will be applied for audits undertaken as part of the 2017/18 Audit Plan.	From April 2017.
	The delivery of this will be checked using feedback from stakeholder surveys, which will be included in Quarter Performance Reports to the Audit Committee.	Refer Audit Committee reporting cycle.

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Report of the Chief Executive
to
Audit Committee
on
29 March 2017

Report prepared by: BDO External Auditor

BDO: Audit Plan 2016/17

Executive Councillor – Councillor Moring

A Part 1 Public Agenda Item

1. Purpose of Report

1.1 To present the External Auditor's Audit Plan for 2016/17 to the Audit Committee.

2. Recommendation

2.1 The Committee accepts BDO's Audit Plan for 2016/17.

3. Background

3.1 As required by the National Audit Office's Code of Audit Practice (the Code), the external auditor must produce an audit planning document. This should set out how the auditors intend to carry out their responsibilities in light of their assessment of risk.

3.2 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 the Council's Aims and Priorities.

4.2 Financial Implications

The prescribed requirements of what needs to be undertaken by the external auditor is defined by the National Audit Office. The plan and fees proposed reflect the application of these requirements to this Council based upon an assessment of risk which is set out in the Audit Plan for 2016/17.

The cost to the Council of external audit for 2016/17 is planned to be £164,100.

4.3 Legal Implications

The Council is required to have an external audit of its activities that complies with the requirements of 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 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

Poor performance by the Council in the areas subject to review could result in either a qualified audit opinion or value for money conclusion and may also impact adversely on any corporate 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.

4.8 Value for Money

The Public Sector Audit Appointments Limited sets the fee formula for determining external audit fees for all external auditors, taking into account the results of the outsourcing of their audit practice and market testing the audit work that is now fully delivered by the private sector audit firms.

4.9 Community Safety Implications and Environmental Impact

None

5. Background Papers

- The National Audit Office's Code of Audit Practice
- Public Sector Appointments Limited Work Programme and Scales of Fees 2016/17

6. Attachment: BDO's Audit Plan 2016/17



Southend-on-Sea Borough Council

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AUDIT PLAN TO THE AUDIT COMMITTEE
Audit for the year ending 31 March 2017

Date of issue: 21 March 2017

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INTRODUCTION

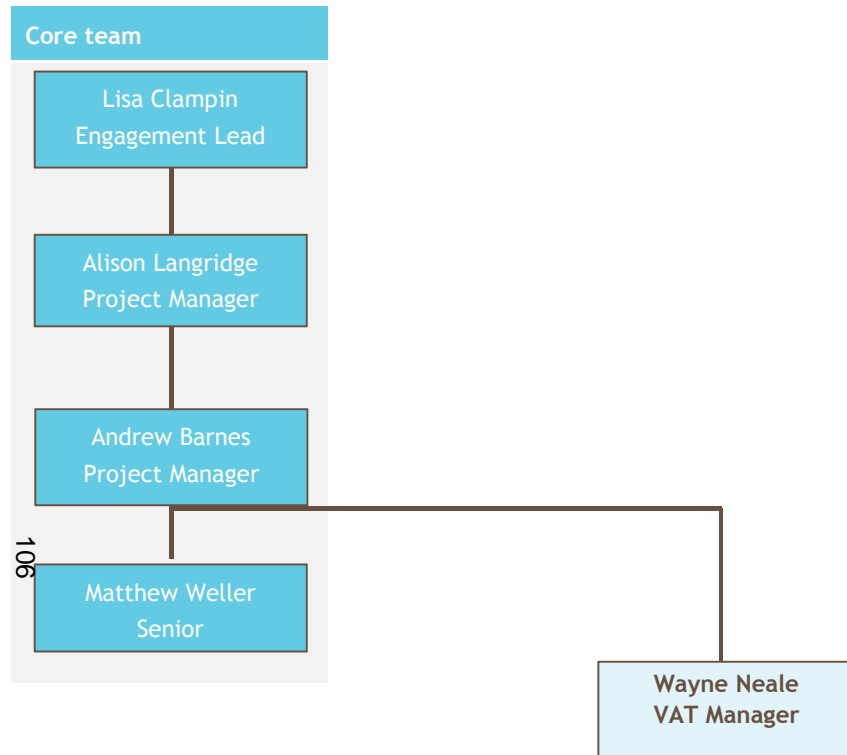
PURPOSE AND USE OF OUR REPORT

The purpose of this report is to highlight and explain the key issues which we believe to be relevant to the audit of the financial statements and use of resources of Southend-in-Sea Borough Council and consolidated entities (together the 'Group') for the year ending 31 March 2017. It forms a key part of our communication strategy with you, a strategy which is designed to promote effective two-way communication throughout the audit process. Planning is an iterative process and our plans, reflected in this report, will be reviewed and updated as our audit progresses.

This report has been prepared solely for the use of the Audit Committee.

In preparing this report, we do not accept or assume responsibility for any other purpose. If others choose to rely on the contents of this report, they do so entirely at their own risk.

YOUR BDO TEAM



Name	Contact details	Key responsibilities
Lisa Clampin Engagement Lead	Tel: 01473 320716 lisa.clampin@bdo.co.uk	Oversee the audit and sign the audit report
Alison Langridge Project Manager	Tel: 01473 320752 alison.langridge@bdo.co.uk	Management of the audit
Andrew Barnes Project Manager	Tel: 01473 320745 andrew.barnes@bdo.co.uk	Management of the audit (From June 2017 -Maternity cover)
Matthew Weller Senior	Tel: 01473 320804 matthew.weller@bdo.co.uk	Day to day supervision of the audit team
Wayne Neale VAT Manager	Tel: 01603 756914 wayne.neale@bdo.co.uk	Manage VAT review for audit purposes

Lisa Clampin is the engagement lead and has the primary responsibility to ensure that the appropriate audit opinion is given on the financial statements.

In meeting this responsibility, she will ensure that the audit has resulted in obtaining sufficient and appropriate evidence to provide reasonable, but not absolute, assurance that:

- the financial statements are free from material misstatement, whether due to fraud or error
- the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

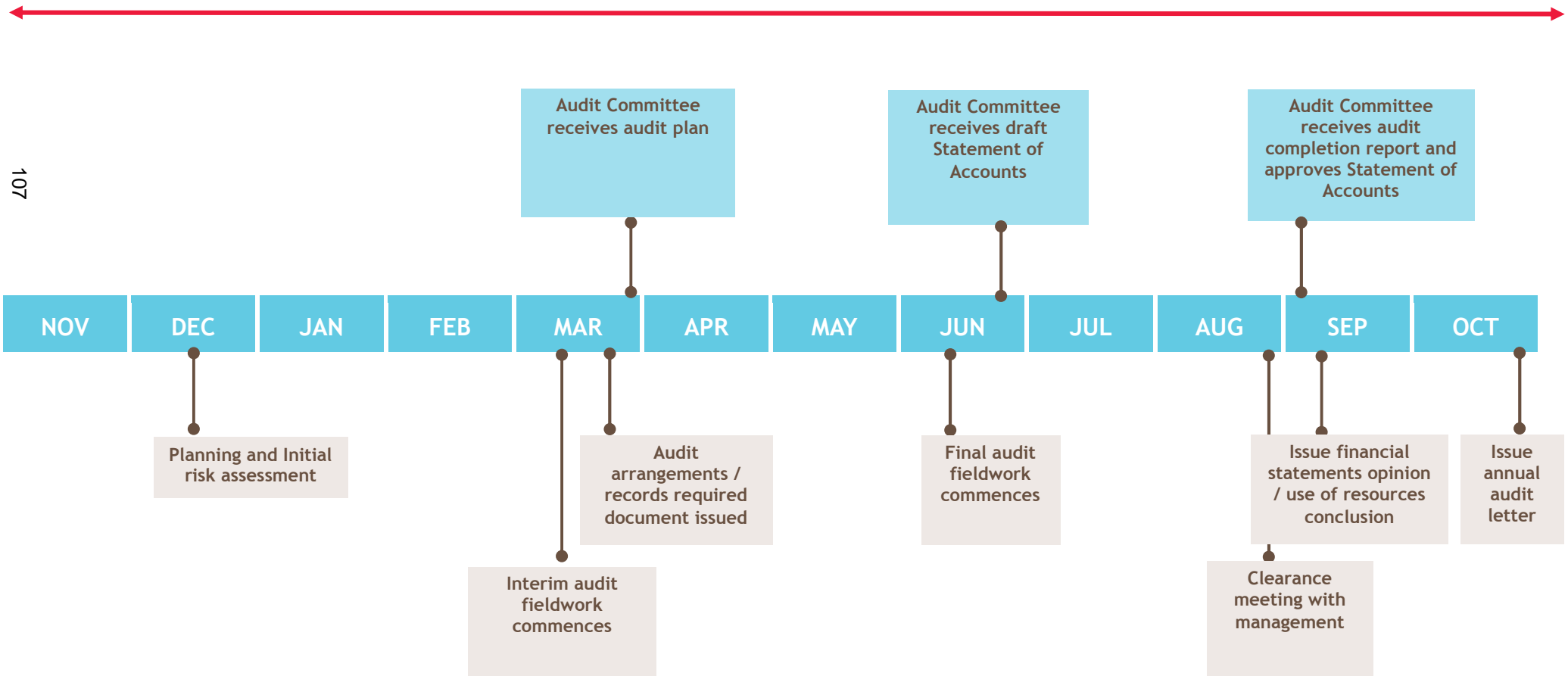
She is responsible for the overall quality of the engagement.

ENGAGEMENT TIMETABLE

TIMETABLE

The timeline below identifies the key dates and anticipated meetings for the production and approval of the audited financial statements and completion of the use of resources audit.

CONTINUOUS COMMUNICATIONS



AUDIT SCOPE AND OBJECTIVES

SCOPE AND OBJECTIVES

Our audit scope covers the audit in accordance with the National Audit Office (NAO) Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the NAO.

Our objective is to form an opinion on whether:

FINANCIAL STATEMENTS		OTHER INFORMATION	WGA CONSOLIDATION	USE OF RESOURCES
<p>1 The financial statements give a true and fair view of the financial position of the group and Council and its expenditure and income for the period in question.</p>	<p>2 The financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.</p>	<p>3 Other information published together with the audited financial statements is consistent with the financial statements (including the governance statement).</p>	<p>4 The return required to facilitate the preparation of the Whole of Government Accounts (WGA) consolidated accounts is consistent with the audited financial statements.</p>	<p>5 The Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.</p>

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ADDITIONAL POWERS AND DUTIES

6 Where necessary:
To consider the issue of a report in the public interest.
To make a written recommendation to the Council.

7 Where necessary:
To allow electors to raise questions about the accounts and consider objections.
To apply to the court for a declaration that an item of account is contrary to law.
To consider whether to issue an advisory notice or to make an application for judicial review.

MATERIALITY

GROUP AND COMPONENT MATERIALITY

	MATERIALITY	CLEARLY TRIVIAL THRESHOLD
Group	£8,600,000	£215,000
Significant components:		
• Council	£8,600,000	£215,000

Please see Appendix I for detailed definitions of materiality and triviality.

At this stage planning materiality for the group and the Council has been based on 2% of the prior year gross expenditure. This will be revisited when the draft financial statements are received for audit.

The clearly trivial amount is based on 2.5% of the materiality level of the group. The Council, as parent entity, has a separate clearly trivial level also using the same 2.5%.

OVERALL AUDIT STRATEGY

We will perform a risk based audit on the group and Council's financial statements and the Council's use of resources

This enables us to focus our work on key audit areas.

Our starting point is to document our understanding of the group, Council and other component entities' businesses and the specific risks it faces. We discussed the changes to the businesses and management's own view of potential audit risk to gain an understanding of the activities and to determine which risks impact on our audit. We will continue to update this assessment throughout the audit.

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

For the use of resources audit, we consider the significance of business and operational risks insofar as they relate to 'proper arrangements', including risks at both sector and Council-specific level, and draw on relevant cost and performance information as appropriate.

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

Approach to components of the group financial statements

Our approach is designed to ensure we obtain the requisite level of assurance across the whole group.

Total coverage is expected to be as shown opposite, which is based upon prior year figures. We do not expect any significant changes in the proportion of expenditure and net assets in 2016/17.

SCOPE	EXPENDITURE COVERAGE 2015/16	NET ASSETS 31/3/16	EXPENDITURE COVERAGE 2014/15	NET ASSETS 31/3/15
Full scope procedures	£422m	£437m	£403m	£388m
Trust Funds	£1m	£17m	£1m	£17m
South Essex Homes	£10m	(£5m)	£11m	(£6m)
Total	£433m	£449m	£415m	£399m

OVERALL AUDIT STRATEGY

Group matters

COMPONENT NAME	% GROUP EXPENDITURE	% GROUP NET ASSETS	COMPONENT AUDITOR	OVERVIEW OF WORK TO BE PERFORMED	OVERVIEW OF THE NATURE OF OUR PLANNED INVOLVEMENT IN THE WORK PERFORMED BY THE COMPONENT AUDITOR
Full scope procedures:					
Council	97.5%	96.3%	BDO UK	Code audit of the financial statement prepared under CIPFA Code of Practice on Local Authority Accounting	Undertaken by the group audit team
Non-significant component procedures:					
Trust funds	0.2%	3.7%	N/A	PPE existence subject to specified procedures and analytical review.	Specified tests undertaken by the group audit team
⇓					
South Essex Homes Limited	2.3%	0%	Scrutton Bland	Analytical review of financial statements prepared by the component entity assessed against expectations and prior year amounts.	N/A

OVERALL AUDIT STRATEGY

Risks and planned audit responses

For the financial statements audit, under International Standard on Auditing (ISA) 315 “Identifying and assessing the risks of material misstatement through understanding the entity and its environment”, we are required to consider significant risks that require special audit attention.

In assessing a risk as significant, we exclude the effects of identified controls related to the risk. The ISA requires us at least to consider:

- Whether the risk is a risk of fraud
- Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention
- The complexity of transactions
- Whether the risk involves significant transactions with related parties
- The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty
- Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

For the use of resources audit, the NAO has provided information on potential significant risks such as:

- Organisational change and transformation
- Significant funding gaps in financial planning
- Legislative or policy changes
- Repeated financial difficulties or persistently poor performance
- Information from other inspectorates and review agencies suggesting governance issues or poor service performance.

We consider the relevance of these risks to the Council in forming our risk assessment and audit strategy.

Internal audit

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

We understand that internal audit reviews have been undertaken across a range of accounting systems and governance subjects. We will review relevant reports as part of our audit planning and consider whether to place any reliance on internal audit work as evidence of the soundness of the control environment.

Fraud risk assessment

We have discussed with management its assessment of the risk that the financial statements may be materially misstated due to fraud and the processes for identifying and responding to the risks of fraud.

Management believe that the risk of material misstatement due to fraud in the Council’s financial statements is low and that controls in operation would prevent or detect material fraud. We are informed by management that there have not been any cases of significant or material fraud to their knowledge.

We are required to discuss with those charged with governance their oversight of management’s processes for identifying and responding to risks of all fraud.

We expect Audit Committee Members, as those charged with governance, to let us know if there are any actual, suspected or alleged instances of fraud of which they are aware.

KEY AUDIT RISKS AND OTHER MATTERS

Key: ■ Significant risk ■ Normal risk

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p>Management override</p> <p>113</p>	<p>The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.</p> <p>Under Auditing Standards (UK and Ireland) 240, there is a presumed significant risk of management override of the system of internal controls.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. • Review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. • Obtain an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual. 	Not applicable.
<p>Revenue recognition</p>	<p>Under auditing Standards there is a presumption that income recognition presents a fraud risk. For local authorities, the risks can be identified as affecting the accuracy and existence of income.</p> <p>In particular, we consider there to be a significant risk in relation to the existence of fees and charges recorded in the Comprehensive Income & Expenditure Statement.</p>	<p>We will test an increased sample of fees and charges to ensure income has been recorded in the correct period and that all income that should have been recorded has been recorded.</p>	Not applicable.

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p>Property, plant and equipment valuations</p> <p>114</p>	<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 re-valuation programme, all car parks, leisure centres, public toilets, shelters and theatres, along with a number of other categories of asset have been re-valued in 2016/17. Upon review of the revaluation schedules for these assets, the upwards revaluations were seen to total £23m and downwards revaluations totalled £17m. We concluded that there is a significant risk of material misstatement of asset values.</p> <p>2016/17 is also the first year in which the Council has used the current valuers, of which we have no prior experience, which increases the associated audit risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> Review the instructions provided to the valuer and review the valuer's skills and expertise in order to determine if we can rely on the management expert Confirm that the basis of valuation for assets valued in year is appropriate based on their usage Confirm that an instant build modern equivalent asset basis has been used for assets valued at Depreciated Replacement Cost. 	<p>We will review independent data that shows indices and price movements for classes of assets against the percentage movement applied by the Council.</p>

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p>Changes in presentation of the financial statements</p> <p>15</p>	<p>The Code requires a change to the presentation of some areas of the financial statements. This includes:</p> <ul style="list-style-type: none"> • Change to the format of the Comprehensive Income and Expenditure Statement (CIES) • Change to the format of the Movement in Reserves Statement (MIRS) • New Expenditure and Funding Analysis (EFA) note • Change to the Segmental Reporting note • New Expenditure and Income analysis note. <p>These changes will require a restatement to the 2015/16 CIES.</p> <p>There is a risk that these presentational changes are not correctly applied in the financial statements.</p>	<p>We will review the draft financial statements and check these against the CiPFA Disclosure Checklist to ensure that all of the required presentational changes have been correctly reflected within the financial statements.</p>	<p>Not applicable.</p>

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p>Pension liability assumptions</p> <p>116</p>	<p>The net 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 is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.</p> <p>There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Agree the disclosures to the information provided by the pension fund actuary. • Contact the administering authority and request confirmation of the controls in place for providing accurate membership data to the actuary • Review the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data. 	<p>We will agree the disclosures to the report received from the actuary.</p> <p>We will use the PwC consulting actuary report for the review of the methodology of the actuary and reasonableness of the assumptions.</p>

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - USE OF RESOURCES

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p>Sustainable finances</p> <p>117</p>	<p>The latest Medium Term Financial Strategy to 2020/21 has identified radical changes to Local Government Finance with the moves to 100% localisation of business rates and the ending of Revenue Support Grant. The MTFs has also taken account of expected annual inflationary and pay award pressures, impact of interest rates, the on-going effect of existing policies, pressures and growth in priority services.</p> <p>Budget gaps have been identified in 2018/19 (£10.3 million), 2019/20 (£5.1 million) and 2020/21 (£7.5 million), this is after the assumption that £6.9m savings will be achieved.</p> <p>Delivering the required savings from 2017/18 will be a challenge and is likely to require implementation of difficult decisions around service provision and alternative delivery models. There is a significant risk that this will not be achieved, impacting on the financial sustainability of the Council in the medium term.</p>	<p>We will review the assumptions used in the Medium Term Financial Strategy and assess the reasonableness of the cost pressures and the amount of Government grant reductions applied.</p> <p>We will review the delivery of the budgeted savings in 2016/17 and the plans to deliver the identified savings for 2017/18.</p> <p>We will also review the strategies to close the budget gap after 2017/18.</p>	<p>We shall review core grant data published by central government.</p>

INDEPENDENCE

INDEPENDENCE

Under Auditing and Ethical Standards, we are required as auditors to confirm our independence to 'those charged with governance'. In our opinion, and as confirmed by you, we consider that for these purposes it is appropriate to designate the Audit Committee as those charged with governance.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to have a bearing on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. The procedures require that engagement leads are made aware of any matters which may reasonably be thought to bear on the firm's independence and the objectivity of the engagement lead and the audit staff. This document considers such matters in the context of our audit for the period ended 31 March 2017.

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

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement lead and audit staff is not impaired. These policies include engagement lead and manager rotation, for which rotation is required after 5 years and 10 years respectively.

INDEPENDENCE - ENGAGEMENT TEAM ROTATION

SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED
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LISA CLAMPIN- Engagement lead	3
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ALISON LANGRIDGE - Project manager	5
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ANDREW BARNES - Project manager (Maternity Cover)	1
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Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.

FEES

FEES SUMMARY

Our proposed fees, excluding VAT, for the year ending 31 March 2017 have been set at the scale fees proposed by the PSAA. These are:

	2016/17 Proposed fee £	2015/16 Actual fee £
Code audit fee	142,816	142,816
Certification fee (Housing benefits subsidy)	21,284	22,226
Total code audit and certification fees:	164,100	165,042
Fees for non audit services - audit related (see below)	10,500	12,000
Fees for non audit services - other (see below)	1,200	6,000
TOTAL FEES	175,800	183,042

NON AUDIT SERVICES FEES ANALYSIS

Audit related services:

	£
Teachers Pensions certification fee	8,000
Pooled capital receipts certification fee	2,500
Total	10,500

Non audit service:

Audit Committee knowledge sharing session	1,200
Total	11,700

Billing arrangements

We will raise invoices for the Code audit fee on a quarterly basis, at £35,704 per quarter, from June 2016. Following our firm's standard terms of business, full payment will be due within 14 days of receipt of invoice. Fee invoices for other services, including the certification of the housing benefits subsidy claim, will be raised as the work is completed.

Amendments to the proposed fees

If we need to propose any amendments to the fees during the course of the audit, where our assessment of risk and complexity are significantly different from those reflected in the proposed fee or where we are required to carry out work in exercising our additional powers and duties, we will first discuss this with the Director of Finance & Resources. Where this requires a variation to the scale fee we will seek approval from PSAA. If necessary, we will also prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee. At this stage, nothing has come to our attention that would require us to seek approval to amend the scale fee.

Our fee is based on the following assumptions

The complete draft financial statements and supporting work papers will be prepared to a standard suitable for audit. All balances will be reconciled to underlying accounting records.

Key dates will be met, including receipt of draft accounts and working papers prior to commencement of the final audit fieldwork.

We will receive only one draft of the Statement of Accounts prior to receiving the final versions for signing.

Within reason, personnel we require to hold discussions with will be available during the period of our on-site work (we will set up meetings with key staff in advance).

APPENDIX I: MATERIALITY

CONCEPT AND DEFINITION

- The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.
- We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.
- Materiality therefore has qualitative as well as quantitative aspects and an item may be considered material, irrespective of its size, if it has an impact on (for example):
 - Narrative disclosure e.g. accounting policies, going concern
 - Instances when greater precision is required (e.g. senior management remuneration disclosures).
- International Standards on Auditing (UK & Ireland) also allow the auditor to set a lower level of materiality for particular classes of transaction, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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CALCULATION AND DETERMINATION

- We have determined materiality based on professional judgement in the context of our knowledge of the Council, including consideration of factors such as sector developments, financial stability and reporting requirements for the financial statements.
- We determine materiality in order to:
 - Assist in establishing the scope of our audit engagement and audit tests
 - Calculate sample sizes
 - Assist in evaluating the effect of known and likely misstatements on the financial statements.

APPENDIX I: MATERIALITY


Continued

REASSESSMENT OF MATERIALITY

- We will reconsider materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality if we had been aware.
- Further, when we have performed all our tests and are ready to evaluate the results of those tests (including any misstatements we detected) we will reconsider whether materiality combined with the nature, timing and extent of our auditing procedures, provided a sufficient audit scope. If we conclude that our audit scope was sufficient, we will use materiality to evaluate whether uncorrected misstatements (individually or in aggregate) are material.
- You should be aware that any misstatements that we identify during our audit, both corrected and uncorrected errors, might result in additional audit procedures being necessary.

UNADJUSTED ERRORS

- 15 In accordance with auditing standards, we will communicate to the Audit Committee all uncorrected misstatements identified during our audit, other than those which we believe are 'clearly trivial'.
- Clearly trivial is defined as matters which will be of a wholly different (smaller) order of magnitude than the materiality thresholds used in the audit, and will be matters that are clearly inconsequential, whether taken individually or in aggregate.
 - We will obtain written representations from the Audit Committee confirming that in their opinion these uncorrected misstatements are immaterial, both individually and in aggregate and that, in the context of the financial statements taken as a whole, no adjustments are required.
 - There are a number of areas where we would strongly recommend/request any misstatements identified during the audit process being adjusted. These include:
 - Clear cut errors whose correction would cause non-compliance with statutory requirements, management remuneration, other contractual obligations or governmental regulations that we consider are significant.
 - Other misstatements that we believe are material or clearly wrong.
-



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.

12

Report of the Chief Executive

to

Audit Committee

on

29th March 2017

Report prepared by: Linda Everard, Head of Internal Audit

Internal Audit Charter, Strategy and Audit Plan for 2017/18

Executive Councillor – Councillor Moring

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To present to the Audit Committee, the Internal Audit Charter with the supporting Strategy and Audit Plan for 2017/18.

2. Recommendation

- 2.1 The Audit Committee approves the Charter, Strategy and Audit Plan for 2017/18.**

3. Background

- 3.1 The Accounts and Audit Regulations 2015 (Regulations) make it a requirement for internal audit to take into account public sector internal auditing standards or guidance in delivering the service.
- 3.2 The UK Public Sector Internal Audit Standards (the Standards) require the service to produce a:
- Charter
 - a risk based plan that:
 - takes into account the:
 - requirement to produce an annual internal audit opinion
 - Council's assurance framework.
 - incorporates or is linked to a strategic or high level statement of how:
 - the service will be delivered and developed in accordance with the Charter
 - it links to the Council's Aims and Priorities.

4. Charter, Strategy and Audit Plan

- 4.1 In order to comply with the Standards, the approach proposed for delivering the service, is set out in the:
- Charter, that defines the purpose, authority and responsibility of the service

- Strategy, that outlines how the service will be delivered in line with the Charter and includes the:
 - Internal Audit Plan for 2017/18
 - statement showing how audit work completed during the year will provide assurance regarding the mitigation of the Council's strategic risks
 - How We Will Work With You Statement.
- 4.2 The following paragraphs explain key amendments to the documents which were last presented to the Audit Committee in March 2016. These are also highlighted in **bold** within the documents themselves for ease of reference.
- 5. Charter (Appendix 1)**
- 5.1 The only amendments made to the Charter this year, reflect changes in job titles following the senior management restructure in November 2016.
- 6. Strategy (Appendix 2)**
- 6.1 The Strategy sets out:
- the ethical framework audit staff are expected to comply with
 - the basis for the audit opinion and the audit approach to be adopted
 - the approach to assessing risk and assurance as part of the audit planning process
 - the Audit Plan, resource assessment and performance indicators
 - how the service will work with key staff, members and groups within the Council
 - how the team will operate on a day to day basis
 - how it will assess its compliance with relevant professional standards and report upon this.
- 6.2 A few cosmetic amendments have been made to the Strategy that don't affect the manner in which the audit service is delivered. The main changes that have been made:
- explain the current resourcing position of the service and the impact that will have on both the :
 - mix of resource that will be used during the year
 - amount of days that can be delivered (Audit Plan section)
 - outline that the Audit Plan sets out the work planned at this stage plus a contingency with a list of potential audits to be completed during the remainder of the year (Audit Plan section)
 - outline that the team's job profiles have now been updated (Resources section)
 - describe the performance targets that the team will adopt once it is more fully resourced and the more limited but relevant targets it will report upon initially during 2017/18 (Service Performance Indicators section)

- provide further information about the external assessment of the team's compliance with professional standards which must be completed by March 2018 (Quality Assurance and Improvement Programme section).
- 6.3 As outlined in the Strategy, activities are only considered for inclusion in the Audit Plan if they are assessed as being significant enough to require period independent review. The coverage provided within the proposed **Audit Plan** for 2017/18 (**Appendix 2a**) is based upon the audit approach outlined in the Strategy which complies with the requirements of the Standards.
- 6.4 The total audit days is currently an estimated figure that:
- excludes schools and South Essex Homes, which has a separate Audit Plan and is funded separately
 - includes a contingency which is currently the difference between work planned and the estimated total days figure that will be reviewed in due course (refer paragraph above re staff resources).
- 6.5 The Audit Plan has been discussed with senior management.
- 6.6 As is usual practice, any proposed future amendments to the Audit Plan will be reported to the Audit Committee for approval.
- 6.7 **Appendix 2b** identifies where **audit reviews** provide some assurance regarding the management of the **Council's corporate risks**.
- 6.8 The full suite of **performance indicators** are designed to enable the service to demonstrate:
- it provides **adequate coverage** by delivering sufficient work in year to enable the Head of Internal Audit to give an opinion on the adequacy and effectiveness of the Council's risk management, control and governance arrangements
 - its **professional competence**
 - its **costs** are competitive.
- 6.9 If delivered, they provide evidence that the Council is maintaining an adequate and effective internal audit service that:
- operates in accordance with proper internal audit practices
 - also adds value and helps the Council to improve its operations.
- 6.10 Some minor amendments have been made to the **How We Will Work With You Statement (Appendix 2c)** to reflect the change in job titles and creation of the Chief Executive's department, not the manner in which Internal Audit interacts with the Council.

7. Corporate Implications

7.1 Contribution to Council's Aims and Priorities

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

7.2 Financial Implications

Financial risk is one of the categories used when assessing the risk profile of all the activities that the Council delivers.

The Audit Plan will be delivered within the agreed budget for the service.

7.3 Legal Implications

The Accounts and Audit Regulations 2015, Section 5 require the Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

The Standards require:

- the Audit Committee to approve (**but not direct**) the annual internal Audit Plan and this report discharges that duty
- the Audit Committee to then receive regular updates on its delivery, as provided by the quarterly performance report
- the Head of Internal Audit to provide an annual audit opinion on the Council's risk management, control and governance arrangements and report on this to the Audit Committee, which is delivered to its June meeting.

7.4 People and Property Implications

People and property risk is another of the categories used when assessing the risk profile of all the activities that the Council delivers.

Resourcing issues relating to the team are covered in the Strategy.

7.5 Consultation

This is set out in the Strategy.

7.6 Equalities Impact Assessment

Not applicable to these documents.

7.7 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 on the Council's ability to deliver its corporate Aims and priorities.

The key team risks are:

- its inability to recruit or retain staff
- that external suppliers won't deliver contracted in work within the required deadlines to the expected quality standards
- that it becomes increasingly difficult to:
 - engage staff in service departments within the audit process
 - obtain information at all or in a timely way, so that a full review can be completed
 - discuss and agree opinions and action plans as the resources to implement them become more stretched.

Additional time has been built into the Audit Plan for managing external contractors.

Internal Audit maintains an audit risk assessment which is explained in the Strategy.

7.8 Value for Money

Internal Audit undertook a service review in 2013/14 which demonstrated that the cost of the service was competitive. This was reconfirmed as part of the external service review completed in September 2016.

This needs to be taken in conjunction with the other indicators reported upon quarterly, when assessing whether the service provides value for money.

7.9 Community Safety Implications and Environmental Impact

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

8. Background Papers

- The Accounts and Audit Regulations 2015
- UK Public Sector Internal Audit Standards
- CIPFA Local Governance Application Note for the UK Public Sector Internal Audit Standards
- CIPFA: The Role of the Head of Internal Audit in Public Service Organisations 2010
- CIPFA: Audit Committee Practical Guidance for Local Authorities and A Toolkit for Local Authority Audit Committees.

9. Appendices

- Appendix 1: Internal Audit Charter
- Appendix 2: Internal Audit Strategy
 - Appendix 2a: Internal Audit Plan for 2017/18
 - Appendix 2b Audits assurance linked to the Council's corporate risks
 - Appendix 2c: How We Will Work With You Statement

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Internal Audit Charter

Subject to annual review by Head of Internal Audit
Reported to the Audit Committee: March 2017

Appendix 1: Internal Audit Charter

Introduction

This Charter sets out the purpose, authority and responsibility of the Council's Internal Audit function, in accordance with the UK Public Sector Internal Audit Standards (the Standards) and the CIPFA Local Government Application Note.

The Charter will be reviewed annually and presented to the Audit Committee for approval.

Service Objective

The key objective for Internal Audit is to complete sufficient work in order to enable it to provide an independent and objective annual opinion on the adequacy and effectiveness of the Council's risk management, control and governance processes, established to enable it to achieve its objectives.

This includes the Council's working arrangements with partners, contractors and third parties.

In doing this, Internal Audit aims to:

- deliver a high quality, cost effective service in line with best practice and professional standards
- work constructively with management to support new developments and major change programmes
- be pragmatic and proportionate with its recommendations, having regard not just to risk, but also the cost of controls
- be flexible and responsive to the needs of the organisation in all its work
- promote an anti-fraud and corruption culture within the organisation.

Responsibilities

Internal Audit is '*an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve effectiveness of risk management, control and governance processes*'¹.

In a local authority, internal audit:

- provides independent and objective assurance to the organisation, its Members and the Corporate Management Team regarding the design and operation of its risk management, control and governance processes
- assists the **Director** of Finance and Resources in discharging his responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.

It is a management responsibility to:

- establish and maintain appropriate governance arrangements and internal control systems

¹ Institute of Internal Auditors

Appendix 1: Internal Audit Charter

- ensure that resources are properly applied, risks appropriately managed and outcomes achieved.

Statutory Role

Internal Audit is a statutory service in the context of the Local Audit and Accountability Act 2014 and its supporting Accounts and Audit Regulations 2015, which state in Part 2, Internal Control, Section 5, that:

“A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account public sector internal auditing standards or guidance.

Any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit:

- *make available such documents and records*
- *supply such information and explanation*

as are considered necessary by those conducting the internal audit.

Internal Audit operates under the Chief Financial Officer's statutory authority to visit any Council land or premises should this be required.

This statutory framework is supported by the Council's Financial Regulations.

Independence and Accountability

Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a way that allows them to make impartial and effective professional judgements and recommendations. Internal auditors have no operational responsibilities. Where the Head of Internal Audit is responsible for other services, arrangements are in place for ensuring that any:

- internal audit work in these areas, is subject to appropriate independent review
- conflicts of interest are avoided.

Internal Audit determines its priorities in consultation with 'Those Charged with Governance'. The Head of Internal Audit has direct access to and freedom to report in her own name and without fear of favour to, all officers and Members and particularly 'Those Charged with Governance' including the Chief Executive and Chair of the Audit Committee. This independence is further safeguarded by ensuring that the Head of Internal Audit's annual appraisal / performance review is not inappropriately influenced by those subject to audit. This is achieved by ensuring that both the Chief Executive and the Chair of Audit Committee contribute to this performance review. The Head of Internal Audit must confirm to the Audit Committee, at least annually, on the organisational independence of the service.

Internal Audit may also provide consultancy services at the request of the organisation, which would include activities like providing advice, facilitation and training. In such circumstances, appropriate arrangements will be put in place to safeguard the independence of Internal Audit.

Appendix 1: Internal Audit Charter

Accountability for the response to the advice and recommendations of Internal Audit lies with management, who either accept and implement the advice or formally reject it.

All Internal Audit staff are required to make an annual declaration of interest to ensure that auditors' objectivity is not impaired and that any potential conflicts of interest are appropriately managed.

Internal Audit Scope

The scope of Internal Audit includes the entire control environment and therefore all of the Council's operations, resources, services and responsibilities in relation to other bodies. In order to identify audit coverage, activities are prioritised based on risk, using a combination of Internal Audit and management risk assessments (including those set out within Council's risk registers). Extensive consultation also takes place with key stakeholders.

The framework used for evaluating the Council's, risk management, control and governance arrangements (as required by the Standards) is set out in the supporting Strategy.

If circumstances arise whereby assurances are to be provided to parties outside the Council, the nature of and approach to be adopted to providing them will be discussed with relevant senior management.

The Head of Internal Audit can consider accepting proposed consulting engagements (should resources allow), based on their potential to improve the management of risks, add value and improve the organisation's operations. Accepted engagements must also be included in the Audit Plan.

Reporting Lines and Relationships

Responsibility for ensuring that statutory internal audit arrangements are in place has been delegated to the **Director** of Finance & Resources (Section 151 Officer) who is a member of the Corporate Management Team. These arrangements form a key element of the Council's corporate governance framework.

Therefore the **Director** of Finance & Resources discharges the administrative responsibilities for managing the internal audit service whilst it reports functionally to the Audit Committee. Details of the functional role of the Audit Committee in this respect should be set out in its Terms of Reference (including its annual work programme).

In discharging this function role, the Audit Committee receives reports that cover the results of internal audit activity and details of Internal Audit performance, including progress on delivering the Audit Plan.

In addition, Internal Audit provides an annual report and opinion to senior management and the Audit Committee on the adequacy and effectiveness of the Council's system of internal control including its risk management, control and governance arrangements.

The Head of Internal Audit also:

- has regular briefings individually with the Chief Executive & Town Clerk and **Deputy Chief Executives of People and Place**

Appendix 1: Internal Audit Charter

- reports at least quarterly on audit matters to the Corporate Management Team which includes the Head of Paid Service, Section 151 Officer and Monitoring Officer
- attends the Council's Good Governance Group which includes the Section 151 Officer and Monitoring Officer and reports to the Head of Paid Service.

Full details of how internal audit works with key officers, Members and groups are set out in the Strategy, Appendix 2c, How We Will Work With You Statement.

Internal Audit Standards

There is a statutory requirement for Internal Audit to work in accordance with the 'proper audit practices'. These 'proper audit practices' are in effect the 'UK Public Sector Internal Audit Standards' (the Standards) as defined by the Institute of Internal Auditors (IIA) in conjunction with the Chartered Institute of Public Finance and Accountancy (CIPFA), which are based upon the International Professional Practices Framework (IPPF). These Standards have been adopted by the Council's Internal Audit Service.

Therefore its Mission (as set out in the IPPF) is *'to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight'*. In delivering this, the service commits to operating in accordance with the IPPF's core principles, which requires that it:

- demonstrates integrity
- demonstrates competence and due professional care
- is objective and free from undue influence (independent)
- aligns with the strategies, objectives and risks of the organisation
- is appropriately positioned and adequately resourced
- demonstrates quality and continuous improvement
- communicates effectively
- provides risk-based assurance
- is insightful, proactive and future-focused
- promotes organisational improvement.

With regard to the application of these Standards only, the Council's Audit Committee takes the role of the 'board' and Corporate Management Team, that of 'senior management'.

In accordance with the Standards, Internal Audit is subject to a quality assurance and improvement regime. This consists of an annual self assessment of the service against the Standards, ongoing performance monitoring of individual reviews and an external assessment at least every five years by a suitably qualified, independent assessor. The results of all of this activity are reported to the Corporate Management Team and the Audit Committee, along with details of any instances of non-conformance. Where non-conformance is considered significant, this will also be included within the Council's Annual Governance Statement.

Appendix 1: Internal Audit Charter

The Accounts and Audit Regulations 2015 require local authorities to produce an Annual Governance Statement in accordance with proper practices. CIPFA's Delivering Good Governance guidance has been given 'proper practice' status by the Department for Communities and Local Government for this purpose. Therefore, the Head of Internal Audit aims to comply with the CIPFA Statement on The Role of the Head of Internal Audit in Public Service Organisations 2010, wherever possible, as required by the guidance.

Internal Audit Resources

It is a requirement that Internal Audit must be appropriately staffed in terms of numbers, grades, qualification levels and experience, having regard to its objectives and to professional standards. Internal Auditors need to be properly trained to fulfil their responsibilities and maintain their professional competence through an appropriate ongoing development programme.

The Head of Internal Audit is responsible for appointing the staff of the Internal Audit Service and will ensure that appointments are made in order to achieve the appropriate mix of qualifications, experience and audit skills.

In addition to in-house audit staff, the Head of Internal Audit may engage the use of external resources where it is considered appropriate, including the use of specialist providers.

The Head of Internal Audit is responsible for ensuring that the resources of the Internal Audit Service are sufficient to meet its responsibilities and achieve its objectives. If a situation arose whereby she concluded that resources were insufficient, she must formally report this to the **Director of Finance & Resources** and, if the position is not resolved, to the Audit Committee.

The Internal Audit budget is reported to Cabinet and Full Council for approval annually as part of the overall Council budget.

Fraud and Corruption

Managing the risk of fraud and corruption is the responsibility of management not Internal Audit. Internal Audit will, however, be alert in all its work to risks and exposures that could allow fraud or corruption. The joint Counter Fraud & Investigation Directorate (the Directorate), a public authorities collaboration hosted at Thurrock Council and Southend-on-Sea Borough Council will investigate allegations of fraud and corruption in line with the Council's Anti Fraud and Corruption Strategy. The Internal Audit Service will work collaboratively with the Directorate where necessary, to ensure system or process weaknesses identified during investigations are addressed.

The Head of Internal Audit must also be informed of all suspected or detected cases of fraud, corruption, bribery or impropriety in order to consider the adequacy of the relevant controls, and evaluate the implication of fraud and corruption for the annual opinion on the control environment.



Internal Audit Strategy

Subject to annual review by Head of Internal Audit
Reported to the Audit Committee March 2017

Appendix 2: Internal Audit Strategy

Introduction

The Internal Audit Charter sets out the service objective for Internal Audit, which is to provide an annual opinion on the adequacy and effectiveness of the Council's risk management, control and governance processes, designed to deliver its Aims and Priorities.

This Strategy sets out how the service will be delivered and developed in accordance with the Charter and how it links to the delivery of the Council's Aims and Priorities.

Code of Ethics

All internal auditors working for the Council will comply with:

- the Code of Ethics contained within the UK Public Sector Internal Audit Standards (the Standards) which define:
 - principles that are relevant to the profession and practice of internal auditing
 - rules of conduct that describe behaviour norms expected of internal auditors.
- the ethical standards of any professional body they are members of
- the Nolan Committee's *Seven Principles of Public Life* as defined in the Local Code of Governance.

The four key principles they will adopt are as follows:

- The **integrity** of internal auditors establishes trust and this provides the basis for reliance on their judgement.
- Internal auditors:
 - exhibit the highest level of professional **objectivity** in gathering, evaluating and communicating information about the activity or process being examined
 - make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.
- Internal auditors respect the value and ownership of information they receive and do not disclose information (**confidentiality**) without appropriate authority unless there is a legal or professional obligation to do so.
- Internal auditors apply the knowledge, skills and experience (**competency**) needed in the performance of internal auditing services.

Inappropriate disclosure of information or breaches of the Code of Ethics by internal auditors could be a disciplinary offence.

All staff working on the Council's audit will be required to sign an Ethical Governance Statement. In house staff will be required to declare any interests prior to starting an audit and to formally update their statement as part of their six monthly appraisal meetings.

Appendix 2: Internal Audit Strategy

Basis for Annual Audit Opinion

In summary, the audit opinion will be based upon an assessment of:

- the design and operation of the key processes operated by the Council in order to manage its business (e.g. governance arrangements)
- the range of individual opinions arising from risk-based and other audit assignments delivered during the year (e.g. service activities and financial systems)
- an assessment of how robustly actions agreed are implemented and whether this is achieved in a timely manner
- the outcome of any other relevant work undertaken (whether internally or externally) where independence assurance is provided about the operation or performance of a service / system.

Audit Approach

The audit approach is designed to provide the Council with assurance that its risk management, control and governance processes are robust enough to ensure its Aims and Priorities will be delivered.

It also takes into account, where applicable, the need for the Council to gain assurance that any partnership or other agreement to which it is party, is also operating successfully to achieve this end.

The framework used for evaluating the Council's, risk management, control and governance arrangements (as required by the Standards) is set out below.

Governance

Over a suitable period, an assessment will be made of the adequacy of governance process in accomplishing the following objectives:

- promoting appropriate ethics and values within the Council
- ensuring effective organisational performance management and accountability
- communicating risk and control information to appropriate areas of the Council
- co-ordinating the activities of, and communicating information among, the Audit Committee, external and internal auditors and management.

In doing this, Internal Audit will:

- evaluate the design, implementation and effectiveness of ethics-related objectives, programme and activities
- assess whether the information technology governance supports the delivery of the Council's Aims and Priorities.

Risk Management

In determining how effective risk management arrangements are, assessments will be made of whether:

Appendix 2: Internal Audit Strategy

- the Council's Aims and Priorities support and align with its Vision
- significant risks are identified and assessed
- appropriate risk responses are selected that align risks with the Council's risk appetite
- relevant risk information is captured and communicated in a timely manner across the Council, enabling staff, management, Members and the Audit Committee to carry out their responsibilities.

This information will be gathered from many sources including audit assignments undertaken each year.

Risk exposures relating to governance, operations and information systems will also be evaluated regarding the:

- achievement of the Council's strategic Aims and Priorities
- reliability and integrity of financial and operational information
- effectiveness and efficiency of operations and programmes
- safeguarding of assets
- compliance with laws, regulations, policies, procedures and contracts.

Internal Audit will also evaluate the potential for the occurrence of fraud, corruption, bribery, theft or financial irregularities and how the Council manages these risks.

Control

An evaluation will be made of the adequacy, effectiveness and efficiency of controls in responding to risks within the Council's governance, operations and information systems (taking into account the same areas outlined in the bullet points in the risk exposures paragraph above).

Types of Assurance Provided

Audit assignments will apply one or a combination of approaches which include assessing:

- the adequacy of system design
- whether:
 - key controls within a system, process or service are operating effectively
 - outcomes from systems, processes or services are in line with expectations.

Internal Audit will make recommendations for improving any services, systems or processes audited with a view to promoting continuous improvement.

Any knowledge gained from consultancy engagements will be incorporated into the evaluation of the Council's, risk management, control and governance processes.

Appendix 2: Internal Audit Strategy

Limitations

Internal Audit will not:

- assume management responsibilities
- control the risks of the Council
- establish and maintain any systems of internal control
- determine operational policies or procedures
- necessarily detect fraud, corruption, bribery, theft or financial irregularities as part of its work as management is responsible for mitigating these risks.

Risk Assessment

A risk based approach will be used to identify areas for review, which takes into account the risk maturity of the Council. The risk assessment will be based upon professional judgement but be informed by:

- key corporate and service level documents (e.g. plans and risk registers)
- regular discussions with the Chief Executive & Town Clerk and **Deputy Chief Executives (People and Place)**
- at least annual discussions with all **Directors** and periodic discussions with Group Managers as required
- the work of the Good Governance Group
- the audit risk assessment
- horizon scanning to establish potential new risks that may materialise during the year
- outcomes from other relevant, independent audits, inspections or work undertaken.

An audit risk assessment will be maintained which includes all service activities as well as key financial systems and business management processes. This helps identify activities that:

- are 'higher risk' because, for example, they are inherently complex, material or susceptible to fraud but well controlled
- will not be audited unless a specific, one off risk arises or their general risk profiles increases.

It is more important, for higher risk activities, that management obtain periodic, independent evidence that the controls remain appropriate and are consistently applied. A significant control failure in these areas could have a serious impact on the Council's ability to deliver its services and overall Aims and Priorities.

In assessing the level of assurance required and therefore the priority attached to each Council service, account will be taken of:

- financial risk
- public related risks (including satisfaction and reputational)

Appendix 2: Internal Audit Strategy

- operational risks (including importance in delivering corporate Aims and Priorities)
- legal and political risks
- people and property risks (including health & safety and safeguarding)
- inherent risk (including that of fraud).

The audit risk assessment will be discussed at least annually with the Chief Executive & Town Clerk, **Deputy Chief Executives (People and Place)** and **Directors**. An annual assessment will be made with the **Director** of Finance & Resources as to whether any assurance is required regarding key financial systems to support the production of the Statement of Accounts.

Internal Audit will decide which action plans to revisit on a risk basis. Where it is determined that further work is required to ensure agreed actions have been properly implemented, this will involve re-testing to ensure:

- this is the case
- the strengthened control arrangements are firmly established in the day to day running of the service.

Assurance Framework

Before producing the Audit Plan, an assessment will be made of the evidence already available regarding the:

- operation of individual services and the management of their related risks
- Council's governance arrangements.

This evidence will be recorded as part of the audit risk assessment documentation. As part of planning the audit, the value of this evidence will be evaluated by assessing:

- what risks and controls such assurance covers
- at what stage in the process it takes effect (see Three Lines of Defence model outlined below) and therefore how quickly it would mitigate the risk
- how reliable it is, which is likely to include some re-performance work to confirm the validity of the findings before it is relied upon for audit purposes.

Coordinating the Three Lines of Defence

First Line of Defence	Second Line of Defence	Third Line of Defence
Risk Owners / Managers	Risk Control and Compliance	Risk Assurance
Operational management	Corporate management type functions	Internal Audit
Delivers the service	Limited independence	Greater independence
Reports through the normal line management structure	Reports primarily to management	Reports to the Audit Committee

Appendix 2: Internal Audit Strategy

Audit Plan

As at March 2017, the combined service still has four vacancies out of nine auditor posts, one of which is being covered by a long term but rolling agency appointment. A new member of staff will start early April 2017 and another won't join the team until July 2017. Therefore, 2017/18 will be another transitional year for the team.

The service will remain heavily reliant on external contractors during 2017/18, which will reduce the number of days that can be delivered from each Council's internal audit budget. It is difficult at this point to predict by how much, as it will depend on when further appointments are made.

In the interim, a staff resource needs assessment will be maintained for the in-house resource to calculate the capacity of this element of the service. A view will then be taken about external resources required to:

- cover vacancies
- deliver audits that require specialist skills.

A programme of audits will be agreed with senior management based on the assessment of risk outlined above. The Audit Plan will:

- mainly focus on:
 - risk based reviews that assess how well core services are being delivered
 - **revisiting previous audit to ensure that agreed action plans have been properly implemented, so the control are fully embedded in the day to day operations of the service or process.**
- include time for:
 - some work on:
 - the Council's arrangements for managing its business
 - key financial systems and grant claims
 - providing advice and support.
 - audit planning, managing audit plan delivery which includes managing contractors and reporting.

Going forward, the remaining schools will only be audited at the Council's request, should there be concerns about their performance.

The Audit Plan, attached at Appendix 2a, sets out the work planned at this stage plus a contingency, front loading contractor work wherever possible. A list of potential audits will be maintained and reviewed in August 2017, to determine what will be added into the Audit Plan, once the number of days available can be more accurately calculated.

It reflects the results of the risk assessment and the information gathered about the Council's assurance framework. It shows how the work will provide evidence that risks relating to the delivery of the corporate Aims and Priorities are being managed effectively. **Appendix 2b** maps audit work against corporate risks.

Appendix 2: Internal Audit Strategy

A contingency budget has been built into the Audit Plan. Nevertheless any risks that arise during the year will be considered against the risk profile of the work already planned before a review is deleted and replaced by a new audit.

Consultancy engagements, if accepted in year, will also be included in the Audit Plan.

Changes to the Audit Plan will be reported to senior management for review and the Audit Committee for approval.

Fraud and corruption risks will be considered when determining the focus of each relevant audit. Any investigations into fraud, corruption, bribery, theft or financial irregularities that arise will be undertaken by the Counter Fraud and Investigation Directorate (the Directorate) **under the Service Level Agreement the Council has with Thurrock Council**. The Internal Audit team will work closely with the Directorate to ensure an effective and integrated service is provided.

Resources

Southend-on-Sea Borough Council and Castle Point Borough Council have signed an Internal Audit Joint Working Agreement to use their combined internal audit resources to provide a service to both councils **and others**.

Following the external service review, a pre-dominantly in-house resourced service will be provided supplemented as required, by additional resources obtained via framework contracts with external suppliers. This service is managed by a jointly appointed and shared Head of Internal Audit.

In principle, once the in-house team has been recreated, the on-going strategy will be to continue with this mixed economy approach to resourcing the service. This is as long as costs remain competitive, productivity is high and quality standards are met, as measured by delivery of the agreed performance indicators.

Work will be allocated to staff with the appropriate skills, experience and competence to complete it. Where the Head of Internal Audit is responsible for an area being audited, arrangements will be made for the work to be **supervised and reviewed** by an appropriately qualified person from outside the service.

Up to date job profiles will be maintained reflecting modern professional requirements. They were last revised and job evaluated (by Southend-on-Sea Borough Council) in November 2016.

The service will be mindful about allowing the staff to audit the same area continually, as this might lead to over-familiarity and complacency that could influence objectivity.

Training and Development

Staff development needs will be continually assessed and fed into the service's training plan to ensure that appropriate skills are available to deliver the Strategy. Consideration will also be given to the need for staff to meet mandatory continued professional development requirements.

Appendix 2: Internal Audit Strategy

Staff will maintain individual training logs that satisfy relevant professional standards. These will be reviewed by line managers at least every six months as part of the corporate performance appraisal process.

Opportunities to purchase tailored training with other organisations will continue to be explored.

Service Performance Indicators

When the service is more fully resourced and settled, the suite of indicators that will be used to measure performance will cover economy, staff productivity, efficiency and effectiveness and consist of:

- delivering 100% of the Audit Plan by the 30 April
- issuing draft reports to the service within 15 days of the final meeting to discuss the findings from the fieldwork
- delivering 75% of total available staff days on delivering the Audit Plan
- losing less than five days per full time equivalent due to sickness absence
- operating in the manner set out in the Standards at team and individual audit level as evidenced by the annual internal and five yearly external performance assessments
- **completing a representative sample of stakeholder surveys that assess compliance with element of the Standards:**
 - **reporting the results regularly to the Audit Committee, with actions to be taken to improve performance, where required**
 - **reflecting the results in the annual performance assessment reported upon in the Head of Internal Audit Annual Report.**
- discharging the duties set out in the CIPFA Statement on the Head of Internal Audit role, wherever possible
- demonstrating periodically that the cost of the service is competitive.

For 2017/18, performance targets will consist of:

- **delivering 100% of the Audit Plan by the June Audit Committee**
- **those relating to sickness and stakeholder surveys**
- **delivering an agreed % of total available staff day days on delivering the Audit Plan (reduced to take account of recruiting and training new staff as well as the time spent preparing for the independent external review). This will be calculated once:**
 - **start dates have been agreed for the new appointments**
 - **an assessment can be made about the time commitment the external assessment will require.**

Performance against targets set will be reported to senior management and the Audit Committee each quarter.

Appendix 2: Internal Audit Strategy

Service Risk Register

Internal Audit will maintain a service risk register that supports the delivery of this Strategy. This will be reviewed and reported upon periodically in the quarterly performance reports to management.

Delivering Audit Assignments

An audit manual will be maintained that guides staff in the performance of their duties. It will be reviewed regularly to reflect changes in working practices and standards. This will ensure that auditors obtain and record sufficient evidence to support their conclusions, professional judgements and recommendations. The standard of files will be such that an experienced auditor, with no previous connection with the audit, will be able to ascertain what work was performed, re-perform it if necessary and support the conclusions reached.

The service will adhere to the Council's clear desk policy with regard to client information and audit files.

Audit files will be retained in accordance with the Council's file retention and disposal policy.

Generally audit files and records are confidential. They will only be shared with the service being audited and external audit. If wider distribution is required, permission must first be obtained from the Head of Internal Audit.

How We Will Work With You

Appendix 2c sets out how the service will work with key officers and groups within the Council, which includes details of who will receive key documents and reports.

Internal Audit will liaise with senior management regarding the timing of individual assignments wherever possible.

Terms of Reference and Draft Reports will be discussed and agreed to be factually correct with Group Managers and **Directors** before being finalised with the **Chief Executive & Town Clerk / Deputy Chief Executives (People and Place)**.

Distribution lists are contained on the front of each report and are agreed in principle, with senior management.

Internal Audit reports contain a disclosure stating they should not be shared with anyone else without the permission of the Head of Internal Audit.

Audit reports will generally be designed to:

- give an opinion on the risk and controls in the area under review
- set out the issues arising, detail the action management is going to take to address them, **identify who is accountable for each action** and note appropriate delivery dates.

Those weaknesses giving rise to significant risks that are not agreed will be brought to the attention of senior management and if necessary the Audit Committee.

Appendix 2: Internal Audit Strategy

The Head of Internal Audit Annual Report will include:

- an annual opinion on the adequacy and effectiveness of the Council's risk management, control and governance processes
- a summary of work completed
- a statement of conformance with the Standards and the results of the Quality Assurance and Improvement Programme
- a comparison of actual work completed compared to what was planned as well as performance against its targets
- issues relevant to the preparation of the Annual Governance Statement
- progress in dealing with issues arising from any external performance assessment.

Audit Committee

To support the work of the Audit Committee, Internal Audit will:

- **develop agendas** and attend meetings
- facilitate the Committee's review of its own remit and effectiveness, if required
- help identify any training needs and work with others to ensure that these are met.

External Audit

Internal Audit will maintain an appropriate working relationship with the Council's external auditors, sharing documentation and reports as required to support the audit of the Statement of Accounts and any other work undertaken.

Partners

Internal Audit will continue to explore opportunities to work effectively with internal audit services of partner organisations where this is beneficial. It will continue to look to make best use of joint audit resources as well as provide opportunities to share learning and good practice.

Quality Assurance and Improvement Programme

The service will maintain a quality assurance and improvement programme that covers all aspects of internal audit activity. The internal assessment will reflect feedback obtained from:

- ongoing supervision and review of individual assignments
- staff performance assessment forms covering blocks of work as well as stakeholder surveys
- regular monitoring of service delivery via agreed performance targets
- an annual self assessment of compliance with relevant professional standards

Appendix 2: Internal Audit Strategy

- a periodic assessment of compliance with the CIPFA statement on the Role of the Head of Internal Audit in Local Government, if completed.

Opportunities for peer reviews or independent challenge of the internal self assessment will continue to be proactively explored.

The combined Internal Audit Service is required to have an external assessment of its compliance with the Standards, at least every five years by a qualified, independent assessor from outside the organisation. The Head of Internal Audit must (as per the Standards section 1312):

- **discuss with the Audit Committee the:**
 - form of external assessment (e.g. full external assessment or self assessment with independent validation)
 - qualification and independence of the external assessor including any potential conflict of interest risks.
- **agree the scope of the external assessment with:**
 - **an appropriate sponsor (e.g. the Chair of the Audit Committee, the Chief Executive and / or Section 151 Officer)**
 - **the external assessor.**

The results of this assessment will be shared with both councils and South Essex Homes.

The results of the quality assurance programme will be reported upon in the Head of Internal Audit's Annual Report. Progress made against any improvement plans will be reported to senior management and the Audit Committee.

Appendices

- **Appendix 2a: Internal Audit Plan for 2017/18**
- **Appendix 2b: Audits assurance linked to corporate risks**
- **Appendix 2c: How We Will Work With You Statement**

Appendix 2a: Internal Audit Plan 2017/18

Dept	Service Activity	Fraud risk	Focus of the Audit
Managing the Business			
All Aims			
CE	Asset Register	Yes	To assess the arrangements for ensuring there are accurate and complete records for managing the Council's property assets.
PL	Departmental Project Assurance Arrangements	No	To assess the design and effectiveness of the departments arrangements for monitoring the delivery of significant projects. To review the project management toolkit used by the department to assess whether it could be used as a corporate model.
CE	Emergency Planning	No	To assess the robustness of the Council's preparedness to respond to a civil emergency under the Civil Contingencies Act 2004.
CE	Information Governance, General Data Protection Regulation	No	To assess the Council's preparedness for complying with the new data protection regulations being introduced in 2018.
PL	IT Risk Assessment	No	To undertake a baseline assessment of IT risks against a standard good practice framework and use this to develop the IT element of the Audit Plan going forward.
<i>Implementing Action Plans</i>			
CE	Business Continuity	No	To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.
Managing Service Delivery Risks			
Safe			
PE	Actions from Children's Quality Assurance File Audits.	No	To assess whether the arrangements which give senior management assurance that key actions identified from Quality Assurance audits are addressed in the agreed timeframes, have been fully embedded in day to day working.
PE	Child Residential Placements	Yes	To assess the robustness of arrangements for approving residential placements for children.

Appendix 2a: Internal Audit Plan 2017/18

Dept	Service Activity	Fraud risk	Focus of the Audit
PE	Children's Services Safeguarding Performance Indicators	No	To assess the progress made in improving the robustness of arrangements for producing performance data for nationally reported safeguarding indicators.
PL	Community Safety Partnership	No	To evaluate the clarity and understanding of its governance framework including its objectives, roles and responsibilities and reporting requirements.
PE	Data Quality	Yes	To assess the robustness of arrangements in place which ensure accurate and timely information is produced for a sample of performance indicators reported to senior management.
PE	Drug and Alcohol: Contract Management	Yes	To assess whether contracts are being effectively managed.
PE	Early Help and Family Support: Quality Assurance Tool	Yes	To assess the robustness of the Quality Assurance Framework operated by the Early Help Family Support team which is designed to provide management with good quality, independent evidence that cases are being managed in accordance with relevant assessment and / or legislative guidance.
PE	Ofsted Improvement Plan	No	To confirm the robustness of the Council's arrangements for implementing a sample of actions identified in the Ofsted Improvement Plan to ensure they become embedded into day to day working practises.
PE / PL	Social Care IT Case Management System, Project Implementation (Liquid Logic)	No	<p>To:</p> <ul style="list-style-type: none"> • assess the robustness of the updated project plan for delivering the expected benefits within the time frames • review progress made in implementing the previously agreed recommendations to improve project processes • assess the adequacy of the key project process controls that should enable: <ul style="list-style-type: none"> • Children's Services to go live in Oct 2017 • Adult Services to go live in January 2018. • confirm that the system is being configured to meet local and statutory performance information needs.

Appendix 2a: Internal Audit Plan 2017/18

Dept	Service Activity	Fraud risk	Focus of the Audit
PE	Social Care Payments to Individuals and Providers	Yes	To assess whether the control framework being designed into the new Liquidlogic case management system and the ContrOCC finance module, is robust enough to ensure that accurate and timely social care payments are made to individuals and providers.
PE	Special Education Needs	Yes	To assess the arrangements for ensuring all Special Education Need (SEN) Statements are converted to Education Health and Care (EHC) Plans by the 2018 deadline.
<i>Implementing Action Plans</i>			
PE	Direct Payments, Financial Monitoring	Yes	To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.
PE	Direct Payments, Mental Health	Yes	
PL	Licensing	Yes	
PE	Social Care IT Case Management System Contract Procurement	Yes	
Clean			
PL	Recycling, Waste and Street Cleansing Services Contract Management	Yes	To assess whether the Recycling, Waste and Street Cleansing Services contract is being effectively managed.
PL	Southend Energy (OVO)	Yes	To assess the Council's arrangements for monitoring delivery of the expected benefits from the partnership / contract arrangements.
Healthy			
PE	Adult Care Transformation Project	No	To map, assess the risks relating to and assurances in place to ensure the changes being made to service delivery arrangements are effectively implemented.
PE	Governance Arrangements between Commissioning Partners	Yes	To assess the adequacy of governance arrangements for the delivery of joint commissioning work between the Council and the Clinical Commissioning Group (CCG).

Appendix 2a: Internal Audit Plan 2017/18

Dept	Service Activity	Fraud risk	Focus of the Audit
PE	Integrated Commissioning	No	To map, assess the risks relating to and assurances in place to ensure the manner in which this operates is effectively and tangibly contributes to the delivery of corporate objectives.
PE	Local Authority Trading Company (LATC)	No	To evaluate the Council's arrangements for monitoring the delivery of service delivery targets set out in the Block Contract with the LATC.
PE	Section 75 Agreement with South Essex Partnership University NHS Foundation (SEPT) for Mental Health Services	Yes	To assess the robustness of the Council's arrangements for monitoring the delivery of social care services to adults of working age as set out in the Section 75 partnership agreement.
<i>Implementing Action Plans</i>			
PE	Family Mosaic Contract Management	Yes	To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.
PL	The Forum Governance Arrangements	Yes	
Prosperous			
PL	Airport Business Park	Yes	To: <ul style="list-style-type: none"> • follow up the implementation of recommendations from audit work in 2016/17 • identify and gain assurance over the proper implementation of the project's key milestones.
PL	Better Queensway	Yes	To: <ul style="list-style-type: none"> • follow up the implementation of recommendations from audit work in 2016/17 • identify and gain assurance over the proper implementation of the project's key milestones.
PL	Car Park Management Contract (Lot 1) Contract Management	Yes	To assess whether the Parking Compliance arrangements (issuing and collecting Parking Charge Notices) as part of the Parking Management contract are being effectively managed.

Appendix 2a: Internal Audit Plan 2017/18

Dept	Service Activity	Fraud risk	Focus of the Audit
PL	Car Park Management Contract (Lot 2) Contract Management	Yes	To assess whether the Car Park Management arrangements (cash collection) as part of the Parking Management contract are being effectively managed.
PL	Highways Contract Management	Yes	To assess whether the highways block of contracts are being effectively managed.
PL	Highways Contract Management: Use of the Insights System (Symology)	Yes	To assess the robustness of the Council's arrangements for properly instructing the contractor to undertake work, confirm work has been done and payment due is accurate.
PL	The Hive Business Incubation Centre	Yes	To assess the robustness of arrangements for monitoring the delivery of the City Deal outputs detailed in the Service Level Agreement with the provider.
<i>Implementing Action Plans</i>			
PE	Corporate Procurement Team, Procure to Pay (P2P)	Yes	To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.
PE	Housing Allocations	Yes	
PE	"P" Cards	Yes	
CE	Right to Buy	Yes	
Excellent			
CE	Debt Management	Yes	To assess whether the new corporate Debt Management strategy is being properly and consistently applied.
CE	Housing Benefit: Risk Assessment of New Claims	Yes	To work proactively with officers to provide assurance that the proposed new automated risk profiling arrangements to determine the level of verification checks required to confirm entitlement, will be fit for purpose.
PE	Pre-payment Cards: Letting of Contract	Yes	To support the procurement exercise by challenging and advising on the robustness of controls for safeguarding Council and / or client monies loaded onto prepaid cards.
PL	Rechargeable Works	Yes	To assess whether the processes for collecting income for accidental damage to the highway have been

Appendix 2a: Internal Audit Plan 2017/18

Dept	Service Activity	Fraud risk	Focus of the Audit
			effectively embedded into day to day working.
<i>Implementing Action Plans</i>			
PE	Section 75 Partnership Agreement, Integrated Equipment Service	Yes	To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.
PL	Works Contract Letting, St Helen's Roman Catholic School	Yes	
All Aims			
CE	Apprenticeship Levy	Yes	To assess the Council's arrangements for using the levy to develop an effective apprenticeship scheme.
PL	IT Systems and Network Access Controls	Yes	To assess the effectiveness of controls in place to restrict access to important Council system and network functions.
CE	Payroll, Self-Serve Module	Yes	To assess whether the new arrangements for processing and approving expense, mileage and overtime allowances are working effectively.
PL	Smart City Project	Yes	To: <ul style="list-style-type: none"> • determine the various elements of the project • assess the adequacy of the governance arrangements for delivering the project.
<i>Implementing Action Plans</i>			
PL	IT Infrastructure and Asset Management	No	To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.
CE	Welfare Reform	No	

Appendix 2a: Internal Audit Plan 2017/18

Dept	Service Activity	Fraud risk	Focus of the Audit
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Key Financial Systems

All Aims

CE	Financial systems work to support the production of the Council's Financial Statements	Yes	<p>To confirm that key controls in each of the key financial systems:</p> <ul style="list-style-type: none"> • are designed to prevent or detect material financial errors, and • have been in place during 2017/18 and therefore, can be relied when producing the Council's Statement of Accounts.
CE	Payroll	Yes	To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.
	Other Key Financial Systems	Yes	<p><i>Approach to this work is still to be confirmed.</i></p> <p>To use computer-assisted audit techniques (CAATs) to automate audit testing and allow for a deeper analysis of large data sets.</p>

Grant Claims

PE	Disabled Facilities Grant	Yes	<p>To certify, in all significant respects, that the conditions attached to the grant have been complied with.</p>
PL	Highways Maintenance Challenge Fund	Yes	
PL	Local Transport Plan Block Funding	Yes	
PL	Pothole Action Fund	Yes	
PL	Local Growth Fund	Yes	
PL	BEST Growth Hub	Yes	
PL	Coastal Communities	Yes	
PE	Troubled Families Intervention	Yes	To challenge Troubled Families Payment By Result (PBR) Grant returns are in line with the Department for Communities and Local Government requirements.

Appendix 2a: Internal Audit Plan 2017/18

Dept	Service Activity	Fraud risk	Focus of the Audit
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Advice and Support			
All Aims			
	External Grant Funding Group		To provide independent review, support and challenge to assist with the delivery of the groups' objectives and work programme.
	Good Governance Group		
Managing Service Delivery			
Preparing for statutory, independent external assessment against UK Public Sector Internal Audit Standards.			
This includes audit planning, resourcing, managing contractor work, reporting to Corporate Management Team and Audit Committee.			

Appendix 2a: Internal Audit Plan 2017/18

Risk Watch List	
PE	Adult Mental Health Services: Risks attached to the results of the Pan-Essex review to scope a joint commissioning arrangement for mental health across Thurrock Council, Essex County Council and the Council.
PE	Adult Social Care Services Assessment of Personal Budgets, follow up work (link to transformation of adult services project).
CE	Allocation and monitoring of legal work including the Pan Essex Agreement.
PE	Better Care Fund, integration of working.
PE	Better Start Early Years (Big Lottery Grant over 10 years), project assurance.
PE	Children Services Multi Agency Risk Assessment Team: Is it fit for purpose and meets all statutory requirements.
PE	Children with Disabilities, Assessment of Social Care: The arrangements for de-escalating the assessment of social care needs to schools.
PL	Cleaning Services Contract: The contract management arrangements for the new contract.
PE	Homelessness: Does the new Homelessness Policy and Strategy cover the statutory requirements and is properly and consistently applied.
CE	HMRC IR 35 Off Payroll Engagement: Does the Council's arrangements comply with the rules for deducting income tax and national insurance when engaging workers through a personal service company.
All	Implementing the Data Retention Policy.
PL	IT Data Centre (2017/18 Audit): Does the Council's newly developed IT server room comply with industry good practice (£1.4M).
PL	IT Disaster Recovery, once the new arrangements are in place.
CE	Registration Services, once the services have been redesigned.
All	Safeguarding arrangements for all services other than children's and adults (as already covered elsewhere by both internal audit and external inspections).
PE	Safeguarding Child Sexual Exploitation Action Plan: Check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.
PE	Social Maturity Model, Early Help and Family Support Team.
PL	Theatres contract management.
CE	Transport: Contract letting and management as this is due to be contracted out in 2017/18.

Appendix 2a: Internal Audit Plan 2017/18

Other grants potentially requiring certification that conditions attached to the grant have been complied with:	
PL	<ul style="list-style-type: none">• Career and Enterprise Company (EAN) £75K.
PL	<ul style="list-style-type: none">• EAN - Enterprise Network (value to be determined).
PL	<ul style="list-style-type: none">• Careers and Enterprise Mentoring Fund (value to be determined).

These are other potential audits that may be considered for inclusion in the Audit Plan during the year should resources permit.

Appendix 2b: Audits assurance linked to the Council's corporate risks

	Corporate Risk as at Jan 2017	Audit work providing assurance in 2017/18	
1	<p>Budget for 2017-20</p> <p>Risk that the scale of predicted funding reductions for 2017-20 budgets will result in significant adverse impact on Council services.</p> <p>Note: All audit work could identify financial issues.</p>	<p>Direct Payments Financial Monitoring Implementing the Action Plan</p> <p>Direct Payments, Mental Health</p> <p>Recycling Waste and Street Cleansing Service Contract Management</p> <p>Southend Energy (OVO)</p> <p>Car Park Management Contract, Contract Management</p> <p>Highways Contract Management</p> <p>Disabled Facilities Grant</p> <p>Highways Maintenance Challenge Fund</p> <p>Local Transport Plan Block Funding</p> <p>Pothole Action Fund</p>	<p>Corporate Procurement Team, Procure to Pay</p> <p>P Cards</p> <p>Debt Management</p> <p>Housing Benefit, Risk Assessment of New Claims</p> <p>Pre-payment Cards, Contract Letting</p> <p>Rechargeable Works</p> <p>Local Growth Fund</p> <p>BEST Growth Hub</p> <p>Coastal Communities</p> <p>Troubled Families Intervention</p>
2	<p>Recruiting and Retaining Staff</p> <p>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.</p>	<p>Apprenticeship Levy</p>	

Appendix 2b: Audits assurance linked to the Council's corporate risks

	Corporate Risk as at Jan 2017	Audit work providing assurance in 2017/18
3	<p>Partnership Arrangements</p> <p>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.</p>	<p>Community Safety Partnership</p> <p>Drug and Alcohol Team, Contract Management</p> <p>Governance Arrangements between Commissioning Partners</p> <p>Integrated Commissioning</p> <p>Section 75 Partnership Agreement with South Essex Partnership University NHS Foundation for Mental Health Services</p> <p>The Forum Governance Arrangements, Implementing the Action Plan</p> <p>Section 75 Partnership Agreement, Integrated Equipment Service, Implementing the Action Plan</p> <p>Emergency Planning</p>
4	<p>Housing Policy</p> <p>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.</p>	<p>Asset Register</p> <p>Housing Allocations, Implementing the Action Plan</p> <p>Right to Buy, Implementing the Action Plan</p>
5	<p>Local Infrastructure</p> <p>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.</p>	<p>Asset Register</p>

Appendix 2b: Audits assurance linked to the Council's corporate risks

	Corporate Risk as at Jan 2017	Audit work providing assurance in 2017/18
6	<p>Alternative Service Delivery Models</p> <p>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.</p>	<p>Social Care IT Case Management System, IT and respect supporting processes</p> <p>Adult Care Transformation Project</p> <p>Integrated Commissioning</p> <p>Local Authority Trading Company</p>
7	<p>Health and Social Care Integration</p> <p>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.</p>	<p>Governance Arrangements Between Commissioning Partners</p> <p>Integrated Commissioning</p> <p>Section 75 Agreement with South Essex Partnership University NHS Foundation for Mental Health Services</p>
8	<p>Contract Management</p> <p>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.</p>	<p>Departmental Project Assurance Arrangements for Place</p> <p>Car Park Management:</p> <ul style="list-style-type: none"> • Issuing and Collecting Parking Charge Notices (Lot 1) • Cash Collection (Lot 2) <p>Highways Contract Management:</p> <ul style="list-style-type: none"> • Use of Insights Symology System for procuring and confirming work has been done • Management of the Block Contract <p>Drug and Alcohol Contract Management</p>

Appendix 2b: Audits assurance linked to the Council's corporate risks

	Corporate Risk as at Jan 2017	Audit work providing assurance in 2017/18
9	<p>Secondary Education and School Places</p> <p>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.</p>	Virtual School Report (2016/17 still to be issued)
10	<p>Surface Water Flooding</p> <p>Risk that surface water flooding, due to overwhelmed drainage infrastructure, will result in damage to property and infrastructure as well as significant disruption.</p>	Highways Contract Management Smart City Project
11	<p>Seafront Cliff Movement</p> <p>Risk that a seafront cliff movement will result in damage to property, transport dislocation and significant financial and reputational damage to the Council.</p>	No work planned
12	<p>Ofsted Joint Inspection</p> <p>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.</p>	<p>Ofsted Improvement Plan (arrangements for embedding improvements into day to day working practices)</p> <p>Actions from Quality Assurance File Audits</p> <p>Children's Services Safeguarding Performance Indicators - Implementing Action Plan</p> <p>Early Help and Family Support Quality Assurance Tool</p> <p>Social Care IT Case Management System Project Implementation (LiquidLogic)</p>

Appendix 2b: Audits assurance linked to the Council's corporate risks

	Corporate Risk as at Jan 2017	Audit work providing assurance in 2017/18
13	<p>Waste Management</p> <p>Risk that failure to effectively manage waste contractual arrangements results in additional financial liability for the Council and loss of service quality.</p>	<p>Recycling Waste and Street Cleansing Service Contract Management</p>
14	<p>Health Lifestyles</p> <p>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.</p>	<p>Drug and Alcohol Contract Management</p>
15	<p>Major Developments</p> <p>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.</p>	<p>Project Management Arrangements (including proper implementation of key milestones) for:</p> <ul style="list-style-type: none"> • Airport Business Park • Better Queensway • Smart City <p>Departmental Project Assurance Arrangements</p>

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How We Will Work With You Statement

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	Headteachers & Chair of Governors (Re Schools Audits)	Relevant Director(s) (see note 1 below)	Relevant Deputy Chief Executive (see note 2 below)	Chief Executive (Head of Paid Service) (see note 3 below)	Director of Finance & Resources (Section 151 Officer)	Corporate Management Team (see note 1 below)	Audit Committee
Internal Audit							
Charter, Strategy, Audit Plan	Set out in annual Schools Brochure	Discuss risk assessment as part of planning process	Discuss risk assessment as part of planning process	Discuss risk assessment Copy draft		Receive Feb / Mar	Approve Mar
Terms of Reference for audits	Notify when selected for an audit	Discuss draft Finalise with	Finalise with	Finalise with	Copy final		
Detailed audit work	Discuss findings on an on-going basis		Brief if issues of concern arise during the review				
Individual audit reports	Discuss draft Finalise with (See note 4)	Discuss draft Finalise with	Finalise with	Finalise with	Copy final		

How We Will Work With You Statement

	Headteachers & Chair of Governors (Re Schools Audits)	Relevant Director(s) (see note 1 below)	Relevant Deputy Chief Executive (see note 2 below)	Chief Executive (Head of Paid Service) (see note 3 below)	Director of Finance & Resources (Section 151 Officer)	Corporate Management Team (see note 1 below)	Audit Committee		
Internal Audit	Officers: Monitor all action plans and sign off reports with High or Satisfactory assurance			IA: Copy final feedback report if one is produced		Consider then note the results of both IA work and management sign off of reports as part of IA's Quarterly Performance Report			
Audit report action plans	IA: Re-audit action plans with Partial or Minimal assurance once all implementation dates have passed								
	IA: Produce and discuss / finalise report and agree an updated action plan if required (See note 4)								
Quarterly Performance Reports	Discuss audit findings insert for Quarterly Performance Report to Audit Committee				Copy draft		Receive quarterly and note		
Annual Report	Discuss audit findings insert for the Head of Internal Audit Annual report				Copy draft and discuss if necessary	Copy draft		Receive May	Approve June

Note 1 These groups include the Council's Monitoring Officer

Note 2 Regular briefings are held with the Chief Executive and Deputy Chief Executives

Note 3 Terms of Reference, Final Reports and inserts for Quarterly Performance Report and the

Head of Internal Audit Annual Report are finalised with the Chief Executive for his / her services only

Note 4 cc to relevant Director and Deputy Chief Executive

CIPFA Better Governance Forum

Audit Committee Update

– helping audit committees to be effective

Issue 22

- Developing an Effective Annual Governance Statement
- Regular Briefing on Current Developments
- Audit committee training

March 2017

Introduction

Dear Audit Committee Member,

Welcome to Issue 22 of our briefings for audit committee members in public sector bodies.

It has been produced by the CIPFA Better Governance Forum and is free to our subscribing organisations. Its aim is to provide members of audit committees with direct access to relevant and topical information that will support them in their role.

This issue takes a fresh look at the annual governance statement in the light of the changes to the governance framework for local government bodies. Producing a statement each year can become a stale process rather than something more valuable, and audit committees can play a very helpful role in supporting their organisation to publish a more meaningful statement.

As always, there are links to new developments and resources of interest for audit committee members.

I hope you will find this issue helpful. Do let me know of any suggestions for future topics or feedback on the briefing.

Best wishes

Diana Melville
Governance Advisor
CIPFA Better Governance Forum
Diana.Melville@cipfa.org.uk

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Previous Issues of Audit Committee Update

You can download all the previous issues from the CIPFA Better Governance Forum website. The earlier issues are on the archive site. 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 See Issues 21 and 22 for updated content.	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	
What Makes a Good Audit Committee Chair? Governance Developments in 2015	Issue 16
The Audit Committee Role in Reviewing the Financial Statements, Regular Briefing on Current Developments	Issue 17
Self-assessment and Improving Effectiveness, Appointment and Procurement of External Auditors, Regular Briefing on Current Issues	Issue 18
Issues from 2016	
Good Governance in Local Government – 2016 Framework, Appointing Local Auditors, Regular Briefing on Current Issues	Issue 19
CIPFA Survey on Audit Committees 2016, Regular Briefing on Current Issues	Issue 20
The Audit Committee and Internal Audit Quality, Briefing on Topical Issues	Issue 21

Workshops and Training for Audit Committee Members in 2017

CIPFA Internal Audit Conference

CIPFA's annual conference for internal auditors will cover professional developments and sharing of good practice.

- 11 May 2017, Oxford Spire Hotel, Oxford

Developments in police audit committees

These events are suitable for members of those 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

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.

- December 2017 and January 2018, further details to be confirmed

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 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.

Developing an Effective Annual Governance Statement

CIPFA and Solace introduced a new governance framework, *Developing Good Governance in Local Government: Framework*, in April 2016, with seven new governance principles. By adopting the new Framework local authorities should be ensuring that their governance arrangements in practice are in accordance with the principles. The annual governance statement (AGS) is a mandatory requirement for local government bodies set out in statutory regulations¹. In essence, it is an accountability statement from each local government body to stakeholders on how well it has delivered on governance over the course of the previous year. The benchmarks that are used to make that statement are the principles in the Framework.

What does the guidance say?

The guidance for the AGS is included along with the Framework and it builds on the previous requirements². In addition to the organisation acknowledging its responsibility for ensuring governance is effective, the AGS should:

- focus on outcomes and value for money
- evaluate against the local code and principles
- be in an open and readable style
- include an opinion on whether arrangements are fit for purpose
- include identification of significant governance issues and an action plan to address them
- be signed by the chief executive and leading member in a council. The PCC and chief constable should sign theirs.

There are also two new areas introduced for 2016/17. Some authorities already include a section that accounts for actions taken in the year to address the significant governance issues identified in the previous year's AGS. CIPFA felt that this was good practice and so has included it as a requirement for the AGS going forward. In addition, CIPFA has not established any 'set text' for authorities to use in acknowledging their responsibility for the governance framework. Many authorities have tended to use the original text from the 2007 guidance, but CIPFA has not included this in the latest guidance in order to encourage more flexibility.

Who is the audience?

The AGS is prepared to account to your stakeholders and they are wide and varied. They include:

- local citizens
- local businesses
- partners
- Department for Communities and Local Government (DCLG)
- external auditors, inspectorates and regulators.

In addition, it should also be a statement that is of value internally – to other members of the governing body and to staff.

What makes a meaningful statement?

¹ In England the [Accounts and Audit Regulations 2015](#), in Scotland [The Local Authority Accounts \(Scotland\) Regulations 2014](#), in Wales [The Accounts and Audit \(Wales\) Regulations 2014](#), in Northern Ireland [The Local Government \(Accounts and Audit\) Regulations \(Northern Ireland\) 2015](#)

² [Delivering Good Governance in Local Government: Framework \(Addendum\)](#) CIPFA 2012

The most important way to make the statement meaningful is to ensure that it is an open and honest reflection of your governance and your current challenges. It has been known for the AGS to contain 'window dressing statements' to gloss over areas of poor performance or to fudge the effectiveness of interventions. Where that is the case, the AGS adds little value and doesn't build confidence in the leadership of the organisation. One of the key aspects of the AGS is the identification of areas for improvement and the associated action plan. Where these are done, well the AGS becomes a meaningful tool for improving governance.

The AGS should also provide a clear evaluation against the principles of good governance and an opinion of whether the arrangements are fit for purpose or not. If the opinion is vague or not included then again the AGS does not send a clear message about accountability.

What can be done to make the statement more effective?

Effectiveness of an AGS will be improved if it more successfully communicates the key messages. There are a number of approaches that some authorities have taken to make their AGS more effective:

- keeping it short and focused – where an organisation has an up-to-date local code that sets out their arrangements, then the AGS can make reference to that rather than repeat the detail
- using diagrams to explain key elements
- using colour or pictures to engage the reader.

Regardless of how well the AGS is written, it will not be effective if it is not regarded as important by those charged with governance and the leadership team.

What shouldn't we do?

There are a number of pitfalls in preparing an AGS. These are some of the common ones:

- not ensuring that a range of perspectives support the AGS
- making it too long and wordy
- including too much description rather than evaluation
- omitting the opinion on whether the arrangements are fit for purpose or not
- not being explicit about the actions that will be taken to address the governance issues identified.

How can the audit committee help?

The audit committee can play a very valuable role in the development of the AGS and in the finished look of the statement. The committee should understand the process that has been undertaken to review governance and so should be able to see how the conclusions in the AGS have been arrived at. There should be no real surprises for the committee.

The committee can provide a valuable reality check for the draft document as well. Is it well written and clearly presented? Is the action plan adequate and realistic?

The committee can send an important message about the value and importance of the AGS, which will support those providing assurance to support its conclusions. Once the AGS has been approved, the committee can review progress in implementing the actions, so helping to ensure that the AGS is meaningful and is an effective tool for improvement in governance.

Other points to note

For the 2017/18 AGS in England the deadline for approval and publication of the statement will be brought forward to 31 July instead of 30 September as at present. This is a requirement of the [Accounts and Audit Regulations 2015](#). Many authorities are planning to approve their AGS and accounts earlier for the 2016/17 year as a preparation for this. As a

result, committees may find that the AGS is appearing on their agendas earlier than in previous years.

The Better Governance Forum held workshops in February and March 2017 on the AGS and developing local codes. Copies of the presentations are available to download from the [CIPFA website](#).

Diana Melville

Recent Developments You May Need to Know About

Legislation, Regulations and Consultations

Public Sector Internal Audit Standards

The responsible internal audit standard setters for the public sector (which includes CIPFA in respect of local authorities) have been consulting on whether the PSIAS should be updated to reflect the changes made to the International Professional Practices Framework on which PSIAS is based. The consultation period ended in January and a decision is expected before the end of March.

Any changes to the PSIAS are expected to be implemented from April 2017 for 2017/18. The changes will need to be adopted by all public sector internal audit teams, supported by their audit committees.

Audit committees should ask for an update on the standards, particularly any that impact on the reporting relationship between internal audit and the audit committee. Audit committees should also be aware that conformance with the standards will be assessed through the external quality assessment, known as an EQA, if one has not yet taken place. An EQA has to be completed for all local authority bodies before April 2018, as they must take place at least once every five years.

Emergency services collaboration

The [Policing and Crime Act 2017](#) includes a duty for all relevant emergency services (defined as police forces, fire and rescue services and the emergency aspects of the ambulance service) in England to consider collaboration with each other in their local area. This could take a range of forms including collaboration across the different services. The audit committees of emergency services bodies should therefore be aware of this duty and local plans. Where collaborative arrangements are proposed, then consideration will need to be given to the governance, risk, control and audit implications.

The Act also provides for a police and crime commissioner to be the fire and rescue authority for the local area. Where this is the case it is likely to have consequences for police audit committees and fire authority audit committees. The details of how the audit committee arrangements might work are being considered as part of ongoing work on the finance and governance implications of the proposals.

Audit committees in combined authorities

Combined authorities are required to have audit committees under the [Cities and Local Government Devolution Act 2016](#), including a requirement to appoint at least one independent member. DCLG has now issued [the Combined Authorities \(Overview and Scrutiny Committees, Access to Information and Audit Committees\) Order 2017](#), concerning the definition of independence of such audit committee members. While the regulations only apply to audit committee members appointed to combined authorities, other authorities considering the appointment of an independent member may want to take them into account.

Reports, Recommendations and Guidance

Financial reporting

There are changes to the 2016/17 financial statements which are designed to make them easier to understand. One principal change is that the income and expenditure account no longer has to follow a standard format, known as the Service Accounting Code of Practice

(SeRCOP). This means that authorities are free to set out their statements in a way that suits them, for example they can follow the structure of the budget monitoring reports that are used throughout the year to inform members on financial performance. CIPFA has produced a helpful guide, [Understanding Local Authority Financial Statements](#), which explains the key statements and features. It also includes a checklist designed to help the authority improve the presentation.

Local audit appointments

English authorities have until 9 March to inform the nominated sector body, Public Sector Audit Appointments (PSAA), if they wish to join the collective procurement and appointment arrangement. The decision must be made by full council, fire authority or police and crime commissioner as appropriate.

PSAA have published an [updated timetable and procurement strategy](#) plus frequently asked questions. All appointments, whether made independently or through PSAA, must be completed by 31 December 2017.

Auditors' work 2015/16: local government and health bodies

PSAA has published [annual reports](#) reviewing the results of auditors' work in local government and in health bodies in 2015/16. They cover the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors utilised their statutory reporting powers. Half of NHS bodies and 6% of local government bodies received a qualified conclusion on their value for money arrangements.

National Audit Office good practice resource

The National Audit Office (NAO) has published a good practice guide to commissioning, procurement and contract management drawing on their findings from recent value for money studies. [Commercial and Contract Management: Insights and Emerging Best Practice](#) highlights control and performance issues across the commercial lifecycle, providing a useful resource when evaluating local plans and contracts.

Financial sustainability of schools

The NAO has published a report, [Financial Sustainability of Schools](#), that highlights the need for mainstream schools to make £3bn in efficiency savings by 2019/20 and highlights the risk that schools will make savings that impact on educational outcomes. The NAO calls for better oversight from the Education Funding Agency of financial management in schools.

The governance challenges posed by indirectly provided, publicly funded services in Wales

The Wales Audit Office (WAO) has published a [discussion paper](#) exploring the governance issues created by the delivery of public services by a range of organisations that are at arms-length from the public body providing funding. It highlights some of the areas of governance risk and discusses how effective governance can be put in place.

Local authority funding of third sector services

A [report](#) from WAO examines the effectiveness of local authorities' arrangements for funding third sector services. It finds that local authorities are neither making the best use of the third sector nor doing enough to ensure they are securing value for money. Authorities could do more to establish a strategic approach and evaluate the impact of their work.

Charging for services and generating income by local authorities

The WAO has published a [report](#) examining income generation and the extent to which authorities have adopted a strategic approach. It has concluded that despite raising more money from charging, authorities are not pursuing all options to generate income because of weaknesses in their policies and in how they use data and information to support decision making. The report also includes a helpful checklist to support a review of an authority's approach to income generation.

Look out for

CIPFA is currently updating its publication [Audit Committees Practical Guidance for Local Authorities and Police](#) (CIPFA 2013). The new edition will reflect the regulatory changes to governance, internal audit and the financial statements. It will also take into account the new external audit arrangements under which local authorities will be working, and the recommendations of the Financial Reporting Council over audit independence and ethical standards.

If you have any comments or suggestions for the improvement of the current edition please email diana.melville@cipfa.org

It is anticipated that the new publication will be available in the autumn.

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