

**Public Document Pack
SOUTHEND-ON-SEA BOROUGH COUNCIL**

Audit Committee

Date: Wednesday, 17th January, 2018

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 DAY MONTH YEAR (Pages 1 - 4)**
- 4 Corporate Risk Register (Pages 5 - 34)**
- 5 Treasury Management Policy for 2018/19 (Pages 35 - 68)**
- 6 BDO: Grant Claim and Returns Certification Report for the Year ended 31 March 2017 (Pages 69 - 84)**
- 7 BDO: Annual Audit Letter, Audit for the year ended 31 March 2017 (Pages 85 - 98)**
- 8 BDO: Progress report to those charged with governance (Pages 99 - 108)**
- 9 Counter Fraud & Investigation Directorate, Quarterly Performance Report (Pages 109 - 116)**
- 10 Internal Audit, Quarterly Performance Report (Pages 117 - 180)**
- 11 Information Items (Pages 181 - 222)**

Members:

Cllr M Davidson (Chair), Cllr H Boyd (Vice-Chair), Cllr B Ayling, Cllr A Bright, Cllr J Moyies, Cllr G Phillips, Cllr M Terry, Cllr J Ware-Lane, Cllr C Willis and K Pandya

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SOUTHEND-ON-SEA BOROUGH COUNCIL

Meeting of Audit Committee

Date: Wednesday, 6th September, 2017

Place: Committee Room 1 - Civic Suite

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Present: Councillor M Davidson (Chair)
Councillors H Boyd (Vice-Chair), B Arscott*, A Bright, J Moyies,
M Terry, C Willis and K Pandya
*Substitute in accordance with Council Procedure Rule 31

In Attendance: J Chesterton, L Everard, I Ambrose, C Fozzard, J Denham, M Coker,
C Gamble, A Barnes (BDO), L Clampin (BDO) and M Waller (BDO).

Start/End Time: 6.30 p.m. - 8.00 p.m.

263 Apologies for Absence

Apologies for absence were received from Councillors Ayling (no substitute),
Ware-Lane (no substitute) and Phillips (substitute: Cllr Arscott).

264 Declarations of Interest

Councillor Davidson – matters in relation to South Essex Homes – Disqualifying
non-pecuniary interest (was able to participate in the debate and vote by virtue of
the dispensation agreed by the Standards Committee at its meeting held on 28th
February 2017).

265 Minutes of the Meeting held on Wednesday 28th June 2017

Resolved:-

That the Minutes of the Meeting held on Wednesday 28th June 2017 be
confirmed as a correct record and signed.

266 BDO: Audit Completion Report to the Audit Committee 2016/17

The Committee considered a report summarising the results of the work
completed to date for the 2016/17 financial year with regard to:

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

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

The External Auditor thanked the Council officers involved for their help and
cooperation during the audit process.

Resolved:

That the BDO report to the Audit Committee 2016/17, including the unadjusted
audit differences and draft representation letter, be accepted.

267 Statutory Statement of Accounts 2016/17

The Committee considered a report of the Chief Executive on the Statement of Accounts for 2016/17.

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

On consideration of the report, Members noted that a report on the governance arrangements of the authority's trading companies would be submitted to the January meeting of the Committee.

Resolved:-

That the Statement of Accounts 2016/17 be adopted and approved for publication.

268 BDO: Progress Report to Those Charged with Governance

The Committee considered a report outlining the progress made in delivering the 2016/17 Annual Audit Plan

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

Resolved:-

That the progress made in delivering the Annual Audit Plan for 2016/17, be accepted.

269 Counter Fraud & Investigation Directorate, Quarterly Performance Report

The Committee considered a report of the Chief Executive presenting the first quarterly performance report outlining the progress made in delivering the Corporate Counter Fraud & Investigation Work Plan.

At the meeting, Members received the Local Government Association publication entitled "A Councillor's workbook on bribery and fraud prevention."

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

Members noted the progress made on the review of counter fraud policies and procedures and that a report would be submitted to the January meeting of the Committee.

Resolved:-

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

270 Internal Audit, Quarterly Performance Report

The Committee considered a report of the Chief Executive providing an update on the progress made in delivering the Internal Audit Strategy for 2017/18.

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

Resolved:

That the progress made in delivering the 2017/18 Internal Audit Strategy, be noted.

Chairman: _____

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Southend-on-Sea Borough Council

Agenda
Item No.

4

Report of Chief Executive and Town Clerk
To

Audit Committee

On

17th January 2018

Report prepared by:
Louisa Bowen, Senior Business Management Advisor

2017-18 Corporate Risk Register

Executive Councillor – Cllr Lamb

1 Purpose of Report

1.1 To consider the 2017/18 Corporate Risk Register and the Quarter 3 updates.

2 Recommendations

3 That Audit Committee considers the 2017/18 Corporate Risk Register and the Quarter 3 updates outlined in Appendix 1.

3.1 Corporate Risk Register 2017/18

3.1.1 The Council's Corporate Risk Register sets out the key risks to the successful delivery of the Council's corporate aims and priorities and outlines the key controls and actions to mitigate and reduce risks, or maximise opportunities.

3.1.2 Updates on the Corporate Risk Register are reported to, and considered by, Corporate Management Team (CMT) quarterly and are presented to Audit Committee every 6 months.

3.1.3 Since the last Audit Committee in June, the following amendments have been made:

1. New risk actions for Corporate Risk 6 (Alternative Service Delivery Models) have been added:
 - Implement Governance arrangements for alternative service delivery models.
 - Explore alternative Housing Investment Company (HIC)
2. There have been three management amendments to the following risk actions:
 - Corporate Risk 5 (Local Infrastructure) – Actions 1- 4 are now managed by Neil Hoskins.
 - Corporate Risk 8 (Contract Management) – Action 2 is now managed by Mark Murphy.
 - Corporate Risk 10 (Flooding/Cliff Slip) – Actions 1- 4 are now managed by Milaila Bentz.
 - Corporate Risk 15 (Major Developments) – Action 1 is now managed by Emma Cooney.

3. There have also been amendments to risk scoring for the following:
- Corporate Risk 1 (Budget for 2018-21) the Current Risk Score has been changed from 9 to 4.
 - Corporate Risk 9 (Secondary School Places) the Current Risk Score has been changed from 6 to 4.
 - Corporate Risk 14 (Health Lifestyles) the Current Risk Score has been changed from 6 to 4.

3.1.4 CMT has held a strategic discussion on the Council's approach to risk and undertaken a review of the current register, pending a potentially more substantial review in the new financial year. The review will be undertaken in the context of the development of the Southend 2050 vision, and an associated revised approach to the Council's business planning framework and work to further embed risk management across the organisation.

3.1.5 The format of the Corporate Risk Register follows a 3 stage process:

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

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

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

The current score is then adjusted in light of progress against actions.

3.1.6 Deputy Chief Executives and Directors ensure service specific risks are managed within their departments, within service plans and in accordance with the risk management strategy and processes. 'Red' rated risks with corporate implications can be escalated to CMT via Corporate Directors. Actions for all these risks are updated and reviewed by Departmental Management Teams.

3.1.7 Operational risks, managed within departments, are also assessed as part of reviews undertaken by Internal Audit and project risks are monitored by the CMT where applicable.

4 Corporate Implications

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

4.2 Financial Implications:
Any financial implications arising from identifying and managing risk will be considered through the normal financial management processes. Proactively managing risk can result in reduced costs to the Council by reducing exposure to potential loss.

- 4.3 Legal Implications:
The Accounts and Audit Regulations 2003 require that:
- The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's function and which includes the arrangements for the management of risk.*
- 4.4 People Implications:
Any people and property implications arising from identifying and managing risk will be considered through the Council's normal business management processes.
- 4.5 Property Implications: None specific
- 4.6 Consultation:
Consultation has taken place with key stakeholders.
- 4.7 Equalities Implications:
Corporate equalities considerations have been considered in the drafting of the Register and any specific equality related risks have been identified for the Council.
- 4.8 Risk Assessment:
Failure to implement a robust assurance framework which includes fit for purpose risk management arrangements increases the risk that Council objectives will not be delivered.
- 4.9 Value for Money:
Effective forecasting and timely management of risk is a key factor in preventing waste, inefficiency and unnecessary or unplanned use of resource.
- 4.10 Community Safety Implications: None specific
- 4.11 Environmental Impact: None specific.

5 Appendices

Appendix 1 – Risk Matrix

Appendix 2 - 2017/18 Corporate Risk Register Quarter 3 updates.

Corporate Assurance Risk Register Update 3

Contents

- Section 1** **3 Stage Risk Scoring Process**
Brief description of the 3 stage risk scoring process and clarification of each stage
- Section 2** **Risk Matrix**
The matrix used for calculating Risk score.
- Section 3** **Corporate Assurance Risk Register**
- Inherent, Current and Target scores
 - Controls and Assurances
 - Future Actions and comments.

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

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

Section 1 - Three Stage Risk Scoring Process

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

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

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

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

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

Section 2 - Risk Matrix

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


2017-18 Corporate Risk Register

Generated on: 04 January 2018

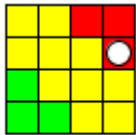
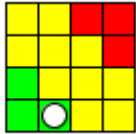


Risk Title	1. Budget for 2018-21						
Stage 1 - Risk without controls (Inherent risk)							
Code	Risk - CAUSE, EVENT, EFFECT	Risk Owner	Risk type	Risk category	Inherent risk score		
1718CRR01	Risk that the scale of predicted funding reductions for 2018-21 budgets will result in significant adverse impact on council services	Joe Chesterton	Strategic	Financial/Reputational	16		<p>Impact</p> <p>Likelihood</p>
Stage 2 - Risk with Controls and Assurances (current risk)							
List of controls and associated assurances to ensure controls are working							
<p>1. Control: Budget setting process to identify required savings through: budget proposal reports to Departmental and Corporate Management Teams; member seminars; Cabinet; Scrutiny Committees; Council Assurance: reports to and minutes of meetings.</p> <p>2. Control: Management oversight of budget setting process through: reports to CMT and Administration Assurance: Reports/Minutes</p> <p>3. Control: Senior member and Chief Executive challenge to departments on proposed savings Assurance: Reports and minutes of meetings.</p> <p>4. Control: Director challenge to Directors Assurance: Minutes of Departmental Management Team meetings/emails.</p> <p>5. Control: Medium Term Financial Strategy (MTFS), including budget pressures to regularly consider financial impact of Government policy reported to CMT, Cabinet and Council Assurance: Reports and minutes of meetings.</p>					Current risk score	4* ↓ (9)	<p>Impact</p> <p>Likelihood</p>
Stage 3 - Further actions to reduce the risk (target risk)							
Code	Actions to further mitigate risk / maximise opportunities	Action Owner	Due date	Comments / update on progress	RAG Status	Target risk score	
1718CRA0101	Budget Timeline outlining key milestones to be agreed with the Administration and Senior Leadership Team.	Joe Chesterton	30-Apr-2017	Quarter 3 - Timeline in place with key deadlines.	✓	4	<p>Impact</p> <p>Likelihood</p>
1718CRA0101	Continually monitor and assess government's position on grant to be distributed to Local Authorities and other Government announcements that impact funding	Joe Chesterton	18-Mar-2018	Quarter 3 - Director of Finance and Resources horizon scanning all Government announcements (including the latest Autumn Budget Statement and Local Government Settlement).	✓		
1718CRA0103	All Member briefing session on local government finance	Joe Chesterton	28-Feb-2018	Quarter 3 - Cabinet discussion was held in April and in July to confirm the position that no session would be held.	✓		


*The Figure in brackets represents current risk score from previous report – June 2017 where there has been a change.

1718CRA01 04	Continual monitoring, risk assessment and reporting of progress on options to meet the saving targets required to set balanced budgets in 2018/19 to 2020/21	Joe Chesterton	28-Feb-2018	Quarter 3 - Saving proposals produced and have been formatted in to the Budget setting for 2018/19.				
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*The Figure in brackets represents current risk score from previous report – June 2017 where there has been a change.

Risk Title	2. Recruiting and retaining staff						
Stage 1 - Risk without controls (Inherent risk)							
Code	Risk - CAUSE, EVENT, EFFECT	Risk Owner	Risk type	Risk category	Inherent risk score		Impact Likelihood
1718CRR02	Risk that failure to retain or recruit staff with the required skills and experience will result in an inability to deliver key projects or services to meet expectations of residents, members, businesses and partners.	Joanna Ruffle	Strategic	Service Provision	12		
Stage 2 - Risk with Controls and Assurances (current risk)							
List of controls and associated assurances to ensure controls are working							
<p>1. Control: Managing Organisational Change Policy; Redeployment Policy & Procedure; Redundancy Policy & Procedure Assurance: Policy documents available via intranet.</p> <p>2. Control: Oversight of policies and procedures to ensure consistency of HR policies and processes and in implementing policies relating to restructure through the People Management & Development Working Party; Corporate Management Team and Workforce Planning Panel Assurance: Reports to and Minutes of meetings.</p> <p>3. Control: All staff vacancies, redeployments and redundancies reviewed by the Workforce Planning Panel Assurance: Minutes of Workforce Planning Panel</p> <p>4. Control: New recruitment provider to identify recruitment hotspots and plan effective recruitment campaigns Assurance: Service Level Agreement, Contract management.</p>					Current risk score	6 ↔	Impact Likelihood
Stage 3 - Further actions to reduce the risk (target risk)							
Code	Actions to further mitigate risk / maximise opportunities	Action Owner	Due date	Comments / update on progress	RAG Status	Target risk score	Impact Likelihood
↱ 1718CRA0201	Continue to embed Talent Management Strategy (including apprenticeships, graduate traineeships, graduate sponsorships and career progression)	Joanna Ruffle	31-Mar-2018	Quarter 3 - Work continues through 2017/18, see the actions below as these link in to this specific action.	✓	2	
1718CRA0202	Participate in regional Children's Social Care Workforce project	Joanna Ruffle	31-Mar-2018	Quarter 3 - This project continues in to second year, following approval at the East of England Chief Executive Forum which took place in the Summer.	✓		
1718CRA0203	Participate in regional Planners Workforce project	Peter Geraghty	31-Mar-2018	Quarter 3 - Continue to engage with colleagues regionally and looking at other options including public interest company.	✓		
1718CRA0204	Develop a framework contract to deliver professional/interim resources to supplement the Reed contract	Joanna Ruffle	31-Mar-2018	Quarter 3- The contract has been let, developed and implemented and is supporting the recruitment of "had to fill posts". Additional resource had been identified across HR services and the People Department which remains on-going. This resource is dedicated to the production and analysis of recruitment/vacancy data and is targeting recruitment in front line services.	✓		

*The Figure in brackets represents current risk score from previous report – June 2017 where there has been a change.

1718CRA02 05	Role of Resourcing Manager agreed and funded to drive talent management initiatives across the organisation	Joanna Ruffle	31-Mar-2018	Quarter 3 - The Resourcing Manager is appointed; the project plan and talent management initiatives are currently underway and are currently focusing on hard to fill posts in Children's Social work teams and the Planning Department. Work is currently underway to re-let the contracts for recruitment services for the Council.				
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*The Figure in brackets represents current risk score from previous report – June 2017 where there has been a change.

Risk Title	3. Key External Challenges						
Stage 1 - Risk without controls (Inherent risk)							
Code	Risk - CAUSE, EVENT, EFFECT	Risk Owner	Risk type	Risk category	Inherent risk score		Impact Likelihood
1718CRR03	Risk that the impact of, or a failure to take advantage of, a new Government agenda, changes to senior personnel and the lead up to Brexit may hamper the ability of the Council to achieve key priorities.	Alison Griffin	Strategic	Reputation	12		
Stage 2 - Risk with Controls and Assurances (current risk)							
List of controls and associated assurances to ensure controls are working					Current risk score	6 ↔	Impact Likelihood
<p>1. Control: Southend Borough Council active member of South East Enterprise Partnership (SELEP) Board and officers aligned to relevant working groups to engage and influence activity and decisions, Assurance: Minutes/Reports</p> <p>2. Control: Corporate Management Team - oversight of Key Projects Assurance: Minutes/ Project Management Reports to CMT</p> <p>3. Control: Success For All Children Group Assurance: Children and Young People Plan/Reports/Minutes</p> <p>4. Control: Health and Wellbeing Board Assurance: Joint Health and Wellbeing Strategy/Report/Minutes</p>							
Stage 3 - Further actions to reduce the risk (target risk)							
Code	Actions to further mitigate risk / maximise opportunities	Action Owner	Due date	Comments / update on progress	RAG Status	Target risk score	Impact Likelihood
14 1718CRA0301	Maintaining, renewing and building relationships with key partners	Alison Griffin	31-Mar-2018	Quarter 3 - SBC's new Chief Executive (Alison Griffin) has been to developing effective working relationships across a wide range of partners – both through formal partnership bodies and through an extensive range of more informal meetings, visits and walkabouts. This has included contributing to discussions on the emerging South Essex 2050 vision and joint work with other SE authorities to secure infrastructure investment and growth to the economic corridor, which will help to frame the developing vision for the borough. There has been extensive partnership working with Health to challenge and strengthen the Sustainability and Transformation Plans (STP) and the next focus will see a concerted effort on localities and attracting NHS funding to local provision.	✓	4	
1718CRA0302	Continue to undertake horizon scanning of key developments in relation to new government legislation, policy and Brexit negotiations	Alison Griffin	31-Mar-2018	Quarter 3 - On-going monitoring of policy developments and initiatives, particularly those that will have financial implications, are highlighted as part of the budget process, via 'Policy Watch' and other briefings, and on-going monitoring by senior officers. Using LGA	✓		

*The Figure in brackets represents current risk score from previous report – June 2017 where there has been a change.

				and SOLACE briefing to maintain watching brief over Brexit opportunities and implications.			
1718CRA0303	Work with Mid and South Essex health and social care partners to develop a multi-year Sustainability and Transformation Plan (STP)	Simon Leftley	31-Mar-2018	Quarter 3 - The Council has engaged throughout the process of Consultation on the STP. The Public Consultation Business case went out to the Public on the 30th November 2017 and will run to the 9th March 2018. The Council will input to the Consultation & continue to monitor proposal for future services	✓		
1718CRA0304	Ensure the on-going sustainability of the BEST (Business Essex Southend & Thurrock) Growth Hub within the LEP umbrella through delivery of South East Business Boast and planning for longer term funding and operation.	Andrew Lewis	31-Mar-2018	Quarter 3 - 2017 Autumn budget statement reiterated strong government commitment to supporting the growth hubs – but still no confirmation of funding measures. ERDF funds have been investigated as a way to support staff if no funding is confirmed.	✓		
1718CRA0305 15	Continue to make the case for Growth Fund Investment in Southend by working with the South Essex Growth Partnership and SELEP.	Andrew Lewis	31-Mar-2018	Quarter 3 - ABP outline business case approved at September SELEP Accountability board which pre-approves some phase 2 funding prior to approval of full business case in 2018. SCATs business case also approved. Principle of change of focus for town centre non-transport funding to forum 2 also agreed. Full business case to be considered at February Accountability Board.	✓		

*The Figure in brackets represents current risk score from previous report – June 2017 where there has been a change.

Risk Title	4. Housing Policy							
Stage 1 - Risk without controls (Inherent risk)								
Code	Risk - CAUSE, EVENT, EFFECT	Risk Owner	Risk type	Risk category	Inherent risk score	Impact	Likelihood	
1718CRR04	Risk that changes to government housing policy (such as selling off high value council properties) and increasing levels of housing need (notably homelessness) results in further significant pressure on council budgets.	Simon Leftley	Strategic	Financial	12			
Stage 2 - Risk with Controls and Assurances (current risk)								
List of controls and associated assurances to ensure controls are working					Current risk score	Impact	Likelihood	
1. Control: Core Strategy and Local Development Plan in place Assurance: Strategy documents 2. Control: Cabinet/Scrutiny Assurance: Reports/Meeting minutes 3. Control: Housing Strategy Assurance: Documents					9			
Stage 3 - Further actions to reduce the risk (target risk)								
Code	Actions to further mitigate risk / maximise opportunities	Action Owner	Due date	Comments / update on progress	RAG Status	Target risk score	Impact	Likelihood
1718CRR0401	Review and update Housing Strategy in light of the Thames Gateway South Essex Strategic Market Assessment and housing policy announcements.	Sharon Houlden	31-Mar-2018	Quarter 3 - Following the Review of Strategic Housing, a report and framework have been produced to assist the production of the new Housing Strategy and an initial report and stakeholder workshop has been scheduled. A summary document for the Strategic Housing Market Assessment (SHMA) is also being produced. The Housing Strategy has been drafted for Cabinet January 2018		6		
1718CRR0402	Work in partnership to develop affordable housing	Sharon Houlden	31-Mar-2018	Quarter 3 - Through regular liaison meetings, Council continues to work closely with Registered Providers and developers to maximise the number of affordable homes built in the borough. New approaches of developing affordable housing will be explored in the update Housing Strategy.				
1718CRR0403	Work collaboratively to develop a coordinated approach to homelessness prevention	Sharon Houlden	31-Mar-2018	Quarter 3 - A report was commissioned to look at the positioning of the Council's strategic housing and homelessness functions. Some of the recommendations of the report will feed in to the on-going work on the refresh of the Homelessness Prevention Strategy. A report re the development of an overarching Housing				

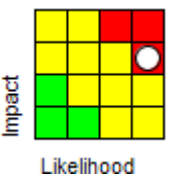
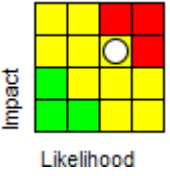

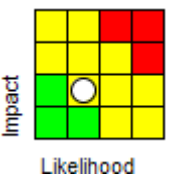
*The Figure in brackets represents current risk score from previous report – June 2017 where there has been a change.

				<p>Strategy will go forward to Cabinet in January 2018.</p> <p>The Community Housing Manager is also heading up a working group looking at the provision of Soup Kitchens and how these can work more effectively in engaging rough sleepers with services. An update on this work has been provided to CMT.</p> <p>The Community Housing Manager has also met with representatives from SHAN, Street Pastors, Winter Night Shelters and HARP regarding engagement with rough sleepers and exploring the possibilities of a year round Church Night Shelter model.</p>				
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*The Figure in brackets represents current risk score from previous report – June 2017 where there has been a change.

Risk Title	5. Local Infrastructure					
Stage 1 - Risk without controls (Inherent risk)						
Code	Risk - CAUSE, EVENT, EFFECT	Risk Owner	Risk type	Risk category	Inherent risk score	
1718CRR05	Risk that failure to maintain levels of access to regeneration funding opportunities will significantly restrict future infrastructure improvements in the borough	Andrew Lewis	Strategic	Financial	12	 Impact Likelihood
Stage 2 - Risk with Controls and Assurances (current risk)						
List of controls and associated assurances to ensure controls are working					Current risk score	9 ↔
1. Control: Highway/Footpath Assets Management inventory in place Assurance: Reports 2. Control: Monthly progress reported to DMT and senior managers Assurance: Reports/Minutes 3. Control: Regular reporting to Corporate Management Team Assurance: Reports/Minutes 4. Control: Cabinet/Scrutiny Assurance: Reports/Meeting minutes						
Stage 3 - Further actions to reduce the risk (target risk)						
Code	Actions to further mitigate risk / maximise opportunities	Action Owner	Due date	Comments / update on progress	RAG Status	Target risk score
1718CRA05018	Produce a Transport Asset Management Plan to support the maintenance and improvement of the roads, pavements and street furniture across the Borough	Neil Hoskins	31-Mar-2018	Quarter 3 - An all member drop in session and exhibition to explain the various work streams and the outcomes arranged for week commencing December 11th.	✓	4 Impact Likelihood
1718CRA0502	Continue to make the case for Growth Fund Investment in Southend by working with the South Essex Growth Partnership and SELEP.	Neil Hoskins	31-Mar-2018	Quarter 3 - As September - Business Case for Southend Central Area Transport Scheme (S-CATS) prepared and submitted to Independent Technical Evaluation (ITE). Value is for £2m and focusses on Phase 1 London Road. ASP Business Case submitted and currently being evaluated by ITE. Indications are positive.	✓	
1718CRA0503	Conduct detailed self-assessment to support Challenge Fund bid	Neil Hoskins	31-Mar-2018	Quarter 3 -NPIF bid successful. Design commencing March 18.	✓	
1718CRA0504	Complete Whole Government Account return (with Finance Dept)	Neil Hoskins	31-Mar-2018	Quarter 3 - As of September 2017. Whole Government Account return has been completed and agreed with finance.	✓	

*The Figure in brackets represents current risk score from previous report – June 2017 where there has been a change.

Risk Title	6. Alternative service delivery models						
Stage 1 - Risk without controls (Inherent risk)							
Code	Risk - CAUSE, EVENT, EFFECT	Risk Owner	Risk type	Risk category	Inherent risk score		
1718CRR06	Risk that failure to effectively manage (staffing, relationships, contracts) the transition to alternative service delivery models results in the organisation not meeting its statutory responsibilities to residents/customers	Simon Leftley; Andrew Lewis	Strategic	Financial	12		
Stage 2 - Risk with Controls and Assurances (current risk)							
List of controls and associated assurances to ensure controls are working					Current risk score		
<p>1. Control: Corporate Management Team Assurance: Reports/Meeting minutes</p> <p>2. Control: Changes to service delivery considered by Scrutiny/Cabinet/Council Assurance: Reports/Minutes.</p> <p>3. Control: Government Consultations register to record forthcoming changes in Government policy and potential legislation to enable potential implications to be considered. Assurance: Consultation register held on intranet.</p> <p>4. Control: Regular tracking of new legislation, government regulations and policy developments. Assurance: Production of Policy briefings and reports to Corporate Management Team.</p>					9	↔	
Stage 3 - Further actions to reduce the risk (target risk)							
Code	Actions to further mitigate risk / maximise opportunities	Action Owner	Due date	Comments / update on progress	RAG Status	Target risk score	
1718CRA0601	Explore alternative delivery models for Adult Social Care services	Simon Leftley	31-Mar-2018	<p>Quarter 3 - The locality approach continues to grow across Southend. Following success in East Central, a West Central locality design team has now been created to identify the specific needs of this locality. It has been identified that while the locality approach continues to develop, an aligned presence to co-ordinate and support the localities is required. A Social Worker within the Transformation Team is acting as a conduit between health and social care working closely with service transformation and all areas in the system as we continue with the development of integrated MDT's across all 4 localities.</p> <p>A trial has commenced of a social worker being positioned directly in the Community Hub which is based in the Victoria Plaza shopping centre in Southend. The trial started 27th July and is being led by the Transformation Team</p>		4	

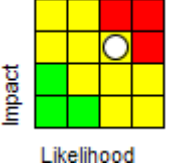
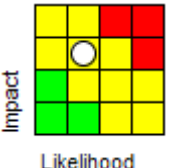
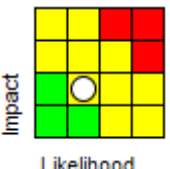
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				<p>supported by the Adult Social Care Review team. The Community Hub projects are a space where residents of Southend can get support with a wide range of social issues. The hubs provide assistance with a range of social issues including personal finance and budgeting advice, housing, special educational needs, IT support, English language learning and more.</p> <p>The Transformation Team alongside the Integrated Commissioning Team have been working closely with the Carer's Hub in Southend to strengthen understanding around carer provision in Southend and how this impacts on our locality teams. We are building a cohort of social work practitioners to share knowledge and skills with the hub over the next few months to gauge the needs of Southend's carer population.</p>			
1718CRA0603	Implement the outcome of the Library Review in accordance with the delivery plan contained within the Library Development Strategy 2013 – 2028	Scott Dolling	31-Mar-2018	Quarter 3 - Leigh Library is last remaining project. Work has begun and completion has been rescheduled for 2018/19.			
1718CRR0604	Implement Governance arrangements for alternative service delivery models.	Joe Chesterton	31-Dec-2017	Quarter 3 - new Governance model agreed by Cabinet on 7th November, (subject to Council approvals on 14th December) This included the establishment of a Shareholder Board.			
1718CRR0605	Explore alternative Housing Investment Company (HIC)	Joe Chesterton	31-Mar-2018	Quarter 3 - Proposal for HIC agreed at June 2017 Cabinet, implementation plan in progress.			

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Risk Title	7. Health and Social Care integration							
Stage 1 - Risk without controls (Inherent risk)								
Code	Risk - CAUSE, EVENT, EFFECT	Risk Owner	Risk type	Risk category	Inherent risk score	Impact	Likelihood	
1718CRR07	Risk that failure to integrate health and social care effectively (inc Pioneer, Better Care Fund and Care Act) will harm the ability of the health and care system to operate at optimal levels, adversely affecting service provision and council finances.	Simon Leftley	Strategic	Service provision, Financial	12			
Stage 2 - Risk with Controls and Assurances (current risk)								
List of controls and associated assurances to ensure controls are working					Current risk score	Impact	Likelihood	
1. Control: Joint Executive Group (JEG). Assurance: Reports/Meeting Minutes. 2. Control: Health and Wellbeing Board. Assurance: Reports/Meeting Minutes. 3. Control: Locality Transformation Group. Assurance: Reports/Meeting Minutes. 4. Control: Corporate Delivery Board. Assurance: Reports/Meeting Minutes.					9 ↔			
Stage 3 - Further actions to reduce the risk (target risk)								
Code	Actions to further mitigate risk / maximise opportunities	Action Owner	Due date	Comments / update on progress	RAG Status	Target risk score	Impact	Likelihood
1718CRA0701	Ensure that the Health and Wellbeing Strategy is underpinned by relevant performance indicators	Simon Leftley	31-Mar-2018	Quarter 3 - The Health and Wellbeing (HWB) Strategy refresh 2017-2021 is currently in development and was agreed in Dec 2017. The focus of the refresh is to increase the levels of physical activity in the borough, to help improve the physical and mental health and well being of residents. A wider mapping exercise is in process to identify how other key health and well being issues are being strategically addressed and this will help to inform a revised suite of high level indicators, to give the HWB Board an overview of broader progress and challenges.		4		
1718CRA0702	Work with Southend Clinical Commissioning Group (CCG) and partners to support Integrated Pioneer status	Simon Leftley	31-Mar-2018	Quarter 3 - The Better Care Fund (BCF) plan for 17/19 submitted in Sep 2017 and approved Nov 2017. Improved BCF plan (relating to transfers of care) approved Oct 2017. Relationships continue to grow and develop and are aligned to the Locality approach.				
1718CRA0703	Better Care Fund (BCF)	Simon Leftley	31-Mar-2018	Quarter 3 - Better Care Fund plan for 17/19 approved by NHSE in November 2017. Plan signed off by HWB prior to submission. S75 agreement due for agreement by mid December 2017. Plan in place for period 2017/19.				

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Risk Title	8. Contract Management						
Stage 1 - Risk without controls (Inherent risk)							
Code	Risk - CAUSE, EVENT, EFFECT	Risk Owner	Risk type	Risk category	Inherent risk score		Impact Likelihood
1718CRR08	Risk that failure to embed effective contract management, combined with contract price inflation, across the authority will result in a loss of value for money, saving opportunities and/or quality of service provision.	Simon Leftley	Strategic	Financial	9		
Stage 2 - Risk with Controls and Assurances (current risk)							
List of controls and associated assurances to ensure controls are working					Current risk score		Impact Likelihood
1. Control: Contract price inflation clauses (linked to government indices) included within Highways contracts, Assurance: Contract documentation 2. Control: Capital Projects Board Assurance: Reports/Meeting Minutes 3. Control: Corporate Delivery Board Assurance: Reports/Meeting Minutes 4. Control: Contract management arrangements Assurance: Contract documentation/minutes/					6	↔	
Stage 3 - Further actions to reduce the risk (target risk)							
Code	Actions to further mitigate risk / maximise opportunities	Action Owner	Due date	Comments / update on progress	RAG Status	Target risk score	Impact Likelihood
1718CRA0801	Governance and Monitoring of highway contracts to ensure proper management including new processes and workflows to support the management of these contract	Neil Hoskins	31-Mar-2018	Quarter 3 - Work on-going. Symology work progressing well. Sharon Griffiths producing a programme for all anticipated works, including street works and licensing. Richard Backhouse now managing Lot 1, Justin Styles managing Lots 2 and 5.	✓	4	
1718CRA0802	Employ where appropriate professional cost advice on all major projects and update and refresh cost plans on regular basis.	Mark Murphy	31-Mar-2018	Quarter 3 - Utilising in house expertise and conducting early contractor involvement. Call-off framework for cost consultation advice being utilised where required. Project variations reported to Place Department Capital Board.	✓		
1718CRA0803	Deliver a programme of contract management training and support across the organisation.	Lee White	31-Mar-2018	Quarter 3 - This is complete - there may be future sessions but they will be new actions, not part of this one.	✓		

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Risk Title	9. Secondary school places						
Stage 1 - Risk without controls (Inherent risk)							
Code	Risk - CAUSE, EVENT, EFFECT	Risk Owner	Risk type	Risk category	Inherent risk score		Impact Likelihood
1718CRR09	Risk that failure to provide the required number of school places at secondary schools for 2018 and 2019 will lead to significant reputational and legal damage for the council.	Simon Leftley	Strategic	Reputational and Legal	9		
Stage 2 - Risk with Controls and Assurances (current risk)							
List of controls and associated assurances to ensure controls are working					Current risk score		Impact Likelihood
1. Control: School Places working party Assurance: minutes 2. Control: Archive of cabinet and Council decisions Assurance: minutes 3. Control: Correspondence between stakeholders, schools, Academy trusts, Local MPs, Ministers Assurance: correspondence 4. Control: Weekly report on progress from Learning to Executive Councillor Assurance: note of actions					4* ↓ (6)		
Stage 3 - Further actions to reduce the risk (target risk)							
Code	Actions to further mitigate risk / maximise opportunities	Action Owner	Due date	Comments / update on progress	RAG Status	Target risk score	Impact Likelihood
1718CRA0901	Establish a secondary places project Board to monitor progress in actions and outcomes for both 18 and 19 places	Brin Martin	31-Mar-2018	Quarter 3 - Following decisions at Cabinet, a new operational project board will now be established to oversee and monitor the delivery of the basic need for secondary places.	✓	4	
1718CRA0902	Where requires escalate lack of progress directly with Cabinet, the regional Schools Commissioner, Local MPs, press and the DfE	Brin Martin	31-Mar-2018	Quarter 3 - With the change from free school to expansion, the requirement to ensure academies meet the expansion agreed, within budget and within time remains. Escalation will continue in the same way with the RSC when and if required.	✓		
1718CRA0903	Develop a secondary school places strategy to cater for the increasing pupil numbers.	Brin Martin	31-Mar-2018	Quarter 3 - The original plans have now been amended to an expansion model. This will be taken through school places working party in the new year, and will in essence for the medium term strategy.	✓		
1718CRA0904	At the earliest opportunity, if wave 13 does not materialise, lobby Local MP and Secretary of State	Brin Martin	31-Mar-2018	Quarter 3 - No longer appropriate - Close this action	✓		


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Risk Title	10. Flooding / Cliff Slip						
Stage 1 - Risk without controls (Inherent risk)							
Code	Risk - CAUSE, EVENT, EFFECT	Risk Owner	Risk type	Risk category	Inherent risk score		Impact Likelihood
1718CRR10	Risk that surface water flooding, breach of sea defences and/or seafront cliff movement, will result in damage to property and infrastructure as well as significant disruption.	Andrew Lewis	Strategic	Reputational, Reputational	12		
Stage 2 - Risk with Controls and Assurances (current risk)							
List of controls and associated assurances to ensure controls are working					Current risk score		Impact Likelihood
1. Control: Flooding Reports considered by Cabinet Assurance: Reports/Meeting minutes. 2. Control: Gully cleaning programme in place Assurance: Programme documents. 3. Control: Regular monitoring of Met Office weather alerts Assurance: Alerts/Reports 4. Control: Cabinet/Scrutiny Assurance: Reports/Meeting minutes					9	↔	
Stage 3 - Further actions to reduce the risk (target risk)							
Code	Actions to further mitigate risk / maximise opportunities	Action Owner	Due date	Comments / update on progress	RAG Status	Target risk score	Impact Likelihood
1718CRA10124	Ensure compliance with the requirements of the Floods and water Management Act 2010 with regard to Sustainable Drainage Systems (SuDS).	Milaila Bentz	31-Mar-2018	Quarter 3 - Flow attenuation and SuDS to be incorporated in several projects. Working on a design for the High Street.	✓	6	
1718CRA1002	Jointly investigate with Anglia Water Services, possible improvements to drainage system.	Milaila Bentz	31-Mar-2018	Quarter 3 - As September - Draft proposals for Seaway Car-Park and Marine Parade identified. AECOM engineer to liaise with Seaway developer to agree locations.	✓		
1718CRA1003	Development of a Cliff Slip Strategy based on a risk minimisation approach	Milaila Bentz	31-Mar-2018	Quarter 3 - Invitation to Tender about to be issued.	⚠		
1718CRA1004	Progression of Sea Defence Scheme at Shoebury Common - consultation options	Milaila Bentz	31-Mar-2018	Quarter 3 - Public consultation now planned for January Strategic Outline Case presented in draft, Cabinet report expected in March 2018.	✓		
1718CRA1005	Shoreline Management Strategy - consultation	Milaila Bentz	31-Mar-2018	Quarter 3 - As September -Public consultation launched on 18/09/17 and public exhibitions held 09/11 and 12/09/17. Background studies and documents by Mott MacDonald in preparation	✓		

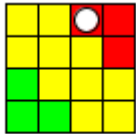
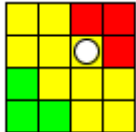

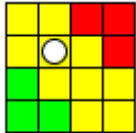


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Risk Title	11. Information Management						
Stage 1 - Risk without controls (Inherent risk)							
Code	Risk - CAUSE, EVENT, EFFECT	Risk Owner	Risk type	Risk category	Inherent risk score		
1718CRR11	Risk that a failure to ensure the Council has a coherent and comprehensive approach to Information Management, and is sufficiently prepared for the General Data Protection Regulation (GDPR), will result in significant financial and reputational damage to	Joanna Ruffle	Strategic	Reputational, Financial	12		
Stage 2 - Risk with Controls and Assurances (current risk)							
List of controls and associated assurances to ensure controls are working					Current risk score		
1. Control: Senior Information Risk Owner - Assurance: Annual SIRO report to Cabinet 2. Control: Annual IG Toolkit assessment – Assurance: Report from independent assessment. 3. Control: Regular reports to Corporate Management Team. Assurance: Reports/Minutes 4. Control: Corporate Information Governance Group: Assurance: Reports/Minutes					9	↔	
Stage 3 - Further actions to reduce the risk (target risk)							
Code	Actions to further mitigate risk / maximise opportunities	Action Owner	Due date	Comments / update on progress	RAG Status	Target risk score	
1718CRA1101	Reconstitute the Corporate Information Governance Group to oversee the Information Management Strategy Action Plan and act as project board for implementation of GDPR	Joanna Ruffle	31-Mar-2018	Quarter 3 - Meetings increased to monthly in order to oversee GDPR preparation. Performance reporting against information Management Strategy (IMS) implemented quarterly.	✓	6	
1718CRA1102	Develop and implement a GDPR Project Plan	Lysanne Eddy	31-Mar-2018	Quarter 3 - External assessment completed and recommendations incorporated into 'Master Plan'. Fortnightly project meetings continue with departmental reps, with activity and reporting mapped against the Master Plan.	✓		
1718CRA1103	Ensure information management is a key part of the Council's transformation agenda.	Joanna Ruffle	31-Mar-2018	Quarter 3 - A partner (31-Ten) appointed, to undertake a transformation diagnostic report. 31-Ten have completed the diagnostic and reported back, this report went to CMT in October. An action planning day regarding the next steps was held on 8th Dec.	✓		
1718CRA1104	Ensure the Council's cyber security arrangements are up to date and robust enough to withstand attacks.	Nick Corrigan	31-Mar-2018	Quarter 3 - Issued Cyber Awareness Training for Staff (and online videos). Completed Cyber Assessment Tender for Security partner – award and start additional work expected in Nov 17. Ongoing implementation of new	✓		

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				<p>security auditing toolkit. Completed link to National Cyber Unit for alerts and monitoring of Council network</p> <p>During November:</p> <ul style="list-style-type: none"> • Cyber Security Testing across Essex underway. Test Phishing emails sent out w/c 7th Nov. • Test underway of new security auditing toolkit • Ransomware protection product out to tender currently • Cyber Security Partner discussions delayed. Award expected Jan 18. • Update Anti-Virus Software took place Nov 17 with roll-out over 2018 				
1718CRA1105	Review the Council's approach to the use and sharing of, information and data	Joanna Ruffle	31-Mar-2018	<p>Quarter 3 - Partner (31-Ten) have been appointed to undertake a transformation diagnostic; 31-Ten have completed this action and reported back to CMT in October, an action planning day held on 8th Dec.</p>				

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Risk Title	12. Ofsted joint inspection						
Stage 1 - Risk without controls (Inherent risk)							
Code	Risk - CAUSE, EVENT, EFFECT	Risk Owner	Risk type	Risk category	Inherent risk score		
1718CRR12	Risk that the actions and expected outcomes from the Children's Services Improvement Plan are not achieved within expected timescales, resulting in a failure to achieve a rating of 'Good' in future Ofsted inspection.	Simon Leftley	Strategic	Reputational	12		Impact Likelihood
Stage 2 - Risk with Controls and Assurances (current risk)							
List of controls and associated assurances to ensure controls are working							
<p>1. Control: Monitoring and updating of the Children Service's Improvement Plan by the CS Improvement Board. Assurance: Reports/minutes of CS Improvement Board meetings.</p> <p>2. Control: Monitoring and updating of the Leadership Narrative Document for Children's services. Assurance: Report/Minutes of Children's Services Improvement Board meetings.</p> <p>3. Control: Children's Service Improvement Board bi-monthly meetings Assurance: Report/Minutes.</p> <p>4. Control: Children's Departmental Management Team. Assurance: Monthly Performance reports/ minutes of meetings.</p> <p>5. Control: People Extended DMT Assurance: Reports to/notes from meetings.</p> <p>6. Control: Local Safeguarding Children's Board (LSCB) to complement the children's service improvement plans Assurance: Reports/minutes.</p> <p>7. Control: Improvement Board Independent Expert, advice and support. Assurance: Reports to John O'Loughlin, Simon Leftley and the Improvement Board</p>					Current risk score	9 ↔	
							Impact Likelihood
Stage 3 - Further actions to reduce the risk (target risk)							
Code	Actions to further mitigate risk / maximise opportunities	Action Owner	Due date	Comments / update on progress	RAG Status	Target risk score	
1718CRA1202	Develop and enhance the resourcing available to the Council's Children's Service, with the recruitment of additional social workers; the embedding the work of the recently appointed 'Practise Lead' to promote good practice and 'Participation Lead' to	John O'Loughlin	31-Mar-2018	Quarter 3 -Recruitment and retention continues to be an area of focus by senior management with weekly updates to the Director. The new practice lead post has now been recruited to and 0.3 of this post is dedicated to participation of children and young people. The role will bring together/coordinate the range of work in relation to participation. This is an area of focus in the Children's Services plan		6	
1718CRA1203	Implementation of the new social care management system, Liquid Logic, due to go live from April 2017	John O'Loughlin	31-Mar-2018	Quarter 3 - Liquid Logic (Children's & Early Help Systems) successfully went live on October 23rd and the go live date for Adults is May 2018.			
1718CRA1204	Embed the new Edge of Care Team, to support those children at risk of entering, or re-entering, the care system (particularly older children at	John O'Loughlin	31-Mar-2018	Quarter 3 - Edge of Care now have 32 open cases. These families have been referred via placement panel and through Early Help from the court and permanence team, Child			

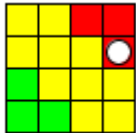
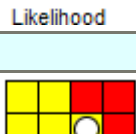
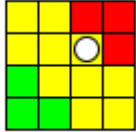
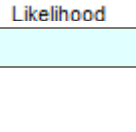

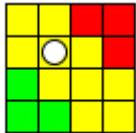

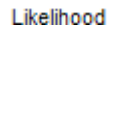
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	risk from the breakdown of foster care placements.			<p>protection Team and Fostering.</p> <p>The increase in referrals has been noted within the last month as there has been a concerted effort to engage social workers and team managers in discussions about preparing families for Public Law Outline, Child Protection intervention or when planning placements and this has seen an improvement in early intervention from Edge of Care.</p> <p>It is being developed that all unborn children that require strategy meetings will be referred to Edge of Care to engage in forward planning before ICPC, Care Proceedings or LAC consideration to give families the opportunity to engage earlier.</p> <p>Edge of Care are also recording on Liquid Logic and within workbooks that will be uploaded to Liquid Logic. Quality Assurance systems are in place and monthly audits and a tracker of the entire caseload is embedded within the team's practice.</p>			
28 1718CRA12 05	Implement and embed the Early Help Phase 2 programme, which, working in partnership with other care professionals will aim to improve the first contact service for vulnerable children.	John O'Loughlin	31-Mar-2018	<p>Quarter 3 - There is good progress with the implementation of the Early Help Phase 2 programme. The Single Front Door and First Contact team are now fully integrated and co-located in Civic 2. EWMHS, DWP and Family Mosaic also form part of this integration. Also discussions with Police and Health to strengthen the Early Help offer by co-location and joint working is happening now.</p> <p>There is on-going work with Partner Agencies and other services to work in joined up family approach, using consistent outcomes aligned to the Southend Outcome Plan.</p> <p>There are currently 9 services within Early Help and a new team (Adolescent Intervention Team) has now been formed. The Service Transformation Maturity Model toolkit and Action Plan have now been completed, and DCLG will be carrying out Spot-check inspection on 11th December 2018.</p>	✓		
1718CRA12 07	Undertake a full budget and performance review of Children's Services to assess levels of resourcing against the demand for services.	Simon Leftley	31-Mar-2018	<p>Quarter 3 - The children's budget for 2018/19 will be set in accordance with the annual Council budget setting programme including investment bids and savings targeted through the department of people. There is recognition in CMT and the People Dept. of the</p>	✓		

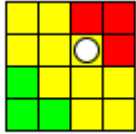
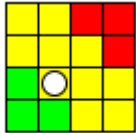
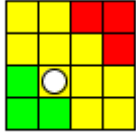
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				<p>considerable in year financial pressures for Children Services. Service and practise improvement is continually targeted through the work of the OFSTED improvement programme, and it is still in scope for a longer term financial budget plan to be designed to accompany the service's future requirements. Note - This will need to be developed through the Children Transformation programme, whilst also considering feedback from the demand research project carried out by Research in Practice (RiP), and affordability of the service proposed</p>				
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Risk Title	13. Waste Management						
Stage 1 - Risk without controls (Inherent risk)							
Code	Risk - CAUSE, EVENT, EFFECT	Risk Owner	Risk type	Risk category	Inherent risk score	Impact	Likelihood
1718CRR13	Risk of contractor failing to meet contractual requirements to effectively manage waste contractual arrangements results in additional financial liability for the Council and loss of service quality.	Andrew Lewis	Strategic	Reputational, Financial	12		
Stage 2 - Risk with Controls and Assurances (current risk)							
List of controls and associated assurances to ensure controls are working					Current risk score	Impact	Likelihood
1. Control: Regular contract management meetings with suppliers Assurance: Meeting Minutes/Reports 2. Control: Data set monitored by DMT and senior managers Assurance: Reports/Minutes 3. Control: Cabinet/Scrutiny Assurance: Reports/Meeting minutes					9 ↔		
Stage 3 - Further actions to reduce the risk (target risk)							
Code	Actions to further mitigate risk / maximise opportunities	Action Owner	Due date	Comments / update on progress	RAG Status	Target risk score	Likelihood
1718CRA1303	Ensure frontline waste collection, street cleansing and ancillary service contractor is performing to service outputs and that performance management is monitored to achieve service standards as specified within relevant contracts	Carl Robinson	31-Mar-2018	Quarter 3 - Performance management framework incorporated within the contract. This is being addressed with Veolia senior management to ensure contract compliance is adhered to in future contract years to ensure specification standards are met and Veolia fully comply with their bid submission. Appropriate performance deductions will be applied as and where necessary in accordance with the contract.		6	
1718CRA1304	Ensure SBC have access to waste disposal and treatment facilities that deliver value for money for the Council.	Carl Robinson	31-Mar-2018	Quarter 3 -SBC are continuing with negotiations with ECC to determine its options going forward. The MBT facility will continue to be used in the medium term where it demonstrates Value for Money to SBC and environmental benefits are derived from using the plant.			

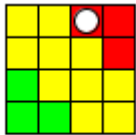
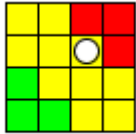
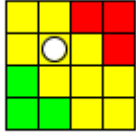
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Risk Title	14. Health Lifestyles						
Stage 1 - Risk without controls (Inherent risk)							
Code	Risk - CAUSE, EVENT, EFFECT	Risk Owner	Risk type	Risk category	Inherent risk score		
1718CRR 14	Risk that continued pressure on the health system including Public Health funding results in a failure to adequately address lifestyle behaviours and reduce health inequalities.	Andrea Atherton	Strategic	Financial, Service Provision	9		 Likelihood
Stage 2 - Risk with Controls and Assurances (current risk)							
List of controls and associated assurances to ensure controls are working						Current risk score	
1. Control: Health and Wellbeing Board. Assurance: Reports/Meeting Minutes. 2. Control: Monthly data set monitored by DMT and senior managers: Assurance: Report/Minutes 3. Control: Cabinet/Scrutiny Assurance: Reports/Meeting minutes						4* ↓ (6)	 Likelihood
Stage 3 - Further actions to reduce the risk (target risk)							
Code	Actions to further mitigate risk / maximise opportunities	Action Owner	Due date	Comments / update on progress	RAG Status	Target risk score	
17/18 PHA 10	Public Health Responsibility Deal	Andrea Atherton	31-Mar-2018	Quarter 3- First Wellbeing Champion network took place on the 11th October, Public Health are using insight gained at this event to further develop the offer of support to Southend businesses. Business engagement and support has continued with a wide range of businesses including eating establishments supported through Regulatory Services. Public Health are working with the transport team to engage local businesses with the South Essex Active Travel Programme.	🟢	4	 Likelihood
17/18 PHA 14	Healthy Lifestyle Service	Andrea Atherton	31-Mar-2018	Quarter 3- The service is still struggling to consistently reach its minimum Key Performance Indicator (KPI) for number of referrals to the service, to support this the provider has developed a remedial action plan including closer work with the Social Care , Single Point of Access (SPoA) as well as considering how closer working relationships, workforce development (including Making Every Contact Count) and promotion can further increase referrals into the service.	🟡		
17/18 PHA 24	Social marketing programme	Andrea Atherton	31-Mar-2018	Quarter 3- On-going implementation of marketing to promote national and local Public Health campaigns including "One You",	🟢		

*The Figure in brackets represents current risk score from previous report – June 2017 where there has been a change.

				"Change4Life" and "Stoptober". Also supporting local uptake of flu vaccination through targeted marketing for at-risk groups and working alongside relevant practitioners. Planning a physical activity campaign and emotional health and wellbeing in the workplace campaigns for early 2018.			
17/18 PHA CPA 08	Physical Activity Strategy	Andrea Atherton	31-Mar-2018	Quarter 3- Physical Activity Strategy Implementation Group continuing, sub-group formed for communications and insight. Working with the South Essex Active Travel Programme and Community Headspace group to grow the existing knowledge and insight around our physically inactive populations. Planning a campaign for early 2018 to include SEAT and partners to promote physical activity including walking and cycling for adults in the Borough. In December we will be undertaking external review with support from the Chief Leisure Officers Association and Sport England, the findings from the review and associated action plan will guide future actions.			

*The Figure in brackets represents current risk score from previous report – June 2017 where there has been a change.

Risk Title	15. Major Developments						
Stage 1 - Risk without controls (Inherent risk)							
Code	Risk - CAUSE, EVENT, EFFECT	Risk Owner	Risk type	Risk category	Inherent risk score		Impact Likelihood
1718CRR15	Risk that failure of partners to progress major infrastructure developments (e.g. Seaways, Airport Business Park and Queensway) will result in significant financial and reputational damage to the Council.	Simon Leftley; Andrew Lewis	Strategic	Reputational, Financial	12		
Stage 2 - Risk with Controls and Assurances (current risk)							
List of controls and associated assurances to ensure controls are working					Current risk score		Impact Likelihood
1. Control: Corporate Management Team Assurance: Reports/Minutes. 2. Control: Corporate Management Team Assurance: Reports/Meeting Minutes 3. Control: Project Boards Assurance: Reports/Meeting Minutes 4. Control: Cabinet/Scrutiny Assurance: Reports/Meeting minutes					9	↔	
Stage 3 - Further actions to reduce the risk (target risk)							
Code	Actions to further mitigate risk / maximise opportunities	Action Owner	Due date	Comments / update on progress	RAG Status	Target risk score	Impact Likelihood
1718CRA1501	Queensway Area Regeneration Project, 17/18 actions: • Progress the finance option & housing plans for the Queensway area regeneration project • Consultation & communication with existing Queensway residents to inform specifications for the redevelopment.	Emma Cooney	31-Mar-2018	Quarter 3 - Consultation closed on 15th December. Approx. 300 attended between the 3 public exhibitions held. Informal feedback has been positive. Review of procurement documents taking place currently with board input at monthly meetings. Undergoing audit checks and 'critical friend' support on processes. Viability testing being updated and highways 'cover over' structural cost details analysed. Housing Infrastructure Fund (HIF) funding to be announced in December.	✓	6	
1718CRA1502	Airport Business Park 2017/18 actions: • To commence Phase 1 infrastructure works • To agree Westcliff Rugby Club relocation strategy and commence work • To submit a planning application for the Innovation centre	Andrew Lewis	31-Mar-2018	Quarter 3 - Phase 1 infrastructure works commenced completion forecast June 2018. Rugby Club Agreement completed and work commenced. Planning Application for the Innovation centre concept design process commenced, forecast June 2018 for submission	✓		
1718CRA1503	Seaway Car Park 2017/18 actions: • To support Turnstone to submit a planning application • To meet the Coach Park Relocation Condition • To support Turnstone in securing prime	Joe Chesterton	31-Mar-2018	Quarter 3 - Continuing, Environmental Impact Assessment (EIA) opinion now issued and planning application expected in January or February 2018. Terms agreed for the Coach Park and	✓		

*The Figure in brackets represents current risk score from previous report – June 2017 where there has been a change.

	tenants			endorsed, legal documentation being prepared. Contracts have been exchanged with anchor tenant (Empire) and Travelodge with further leisure and restaurant tenant leads being developed.				
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*The Figure in brackets represents current risk score from previous report – June 2017 where there has been a change.

Report of Chief Executive

to

Audit Committee

on

17 January 2018

Report prepared by: Joe Chesterton
Director of Finance and Resources

Treasury Management Policy for 2018/19

Executive Councillor: Councillor Moring

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To submit the treasury management policy for 2018/19 to Audit Committee for scrutiny before approval by Council as part of the annual budget process.

2. Recommendation

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

- Treasury Management Policy Statement for 2018/19;
- Treasury Management Strategy for 2018/19;
- Annual Investment Strategy for 2018/19.

3. Background

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

- 3.3 At its meeting of 25 February 2010 Council amended the terms of reference of the Audit Committee to include scrutiny of the treasury management policy. From April 2010 onwards, the Audit Committee has been responsible for ensuring its effective scrutiny.
- 3.4 Since their approval by Council in February 2017 there have been no changes to the Treasury Management Policy Statement, the Treasury Management Strategy or the Annual Investment Strategy.
- 3.5 In compliance with the CIPFA Treasury Management Code of Practice the Council's treasury management policy comprises:
- the Treasury Management Policy Statement;
 - the Treasury Management Strategy;
 - the Annual Investment Strategy.
- 3.6 The purpose of the Treasury Management Policy Statement is to set out the scope of the Treasury Management function, the policy on borrowing, debt restructure, investments, delegation and management of risk. The proposed Treasury Management Policy Statement for 2018/19 is attached as **Appendix 1**.
- 3.7 The purpose of the Treasury Management Strategy is to set out how the budgeted financing costs can be achieved. It covers the prospects for interest rates and the strategy on borrowing and debt restructuring. The proposed Treasury Management Strategy for 2018/19 is attached as **Appendix 2**.
- 3.8 The purpose of the Annual Investment Strategy is to set out the investment objectives and the policies on the use of external fund managers, on the investment of in-house managed funds and on the use of approved counterparties. The proposed Annual Investment Strategy for 2018/19 is attached as **Appendix 3**.
- 3.9 Appendices 1, 2 and 3 together form the treasury management policy and are used on a daily basis for the effective running of the treasury management function.
- 3.10 In response to the on-going economic, regulatory and financial market conditions, and in consultation with our treasury management advisers, the treasury management policy has been updated for the 2018/19 financial year. The changes from the revised 2017/18 policy are shown in **Appendix 4**.
- 3.11 The policy and strategy documents are written in order to provide officers and advisers with clear boundaries within which to work but as a result they are written using technical language. Treasury management training has been offered to all councillors to aid understanding of the issues and further training will be available in the future.

4. Corporate Implications

4.1 Contribution to Council's Vision & Critical Priorities

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

4.2 Financial Implications

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

4.3 Legal Implications

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

4.4 People Implications

None

4.5 Property Implications

None

4.6 Consultation

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

4.7 Equalities and Diversity Implications

None

4.8 Risk Assessment

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

4.9 Value for Money

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

4.10 Community Safety Implications

None

4.11 Environmental Impact

None

5. Background Papers

5.1 None.

6. Appendices

6.1 Appendix 1 – Treasury Management Policy Statement 2018/19

6.2 Appendix 2 – Treasury Management Strategy 2018/19

6.3 Appendix 3 – Annual Investment Strategy 2018/19

6.4 Appendix 4 – Changes from the revised 2017/18 Treasury Management Policy

SOUTHEND-ON-SEA BOROUGH COUNCIL

TREASURY MANAGEMENT POLICY STATEMENT 2018/19

1 Background

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

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

1.9 The CIPFA Code of Practice on Treasury Management has again been revised and the latest version is the 2017 Edition published within the last week of December. The key changes are:

- The term “investments” now covers all the financial assets of the organisation, as well as other non-financial assets which the organisation holds primarily for financial returns, such as investment in property portfolios. This may therefore include investments which are not managed as part of normal treasury management and are therefore covered by the Capital Strategy instead.
- The guidance on risk management has been amended to include ensuring that robust due diligence procedures cover all external investment (this has been included in paragraph 13.2 of this document);
- A new risk management consideration has been introduced covering inflation risk management (this has been included in paragraph 13.12 of this document);
- That the Council has reviewed its classification with financial institutions under MiFID II and has set out those organisations with which it is registered as a professional client (this has been included in section 7 of Appendix 3);

2 Duration of the Policy Statement

2.1 This Treasury Management Policy Statement covers the 2018/19 financial year.

3 Scope of the Treasury Management Function

3.1 The Council defines its treasury management activities as:

- the management of the organisation’s investments and cash flows, its banking, money market and capital market transactions;
- the effective control of the risks associated with those activities;
- the pursuit of optimum performance consistent with those risks.

3.2 The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council.

3.3 The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable

comprehensive performance measurement techniques, within the context of effective risk management.

- 3.4 The Council acknowledges that responsibility for the effective management and control of risk lies with the authority.

4 Use of a treasury management adviser

4.1 The services of a treasury management adviser, Link Asset Services (formerly Capita Asset Services), will be used throughout 2018/19 to assist the Council to develop and enhance the performance of the treasury management function.

4.2 The role of this adviser is to provide relevant and timely information and advice on all aspects of treasury management.

4.3 The Council recognises that responsibility for treasury management decisions remains with the authority at all times.

5 Funding requirements for the capital programme

5.1 The following methods of funding have been identified as being available to the Council for use in 2018/19:

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

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

6 Limits on external borrowings

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

- 6.2 The table below shows the operational boundary and authorised limits for borrowing for 2017/18 and 2018/19:

	2017/18 Original £m	2017/18 Revised £m	2018/19 Original £m
Operational boundary	285	260	285
Authorised limit	295	270	295

In accordance with the Prudential Code these limits exclude outstanding debt relating to services transferred from Essex County Council (ECC) on 1 April 1998.

7 Policy on sources and types of long term borrowing

- 7.1 The Council's long term borrowing (i.e. for more than one year) for 2018/19 will be via any type of loan from the Public Works Loan Board (which is a statutory body whose function is to lend money to local authorities and other prescribed bodies) or from banks, building societies or other financial institutions as appropriate.
- 7.2 In addition, if it is deemed to be economically advantageous the Section 151 Officer, in consultation with our Treasury Management advisers, can issue bonds to raise funds, either in this council's name or collaboratively with other Local Authorities or via the Local Government Association (LGA), and either as a private or public placement.
- 7.3 In addition, if it is deemed to be economically advantageous the Section 151 Officer, in consultation with our Treasury Management advisers, can borrow from other Local Authorities.
- 7.4 In addition, if it is deemed to be economically advantageous the Section 151 Officer, in consultation with our Treasury Management advisers, can borrow for the purposes of financing regeneration and other infrastructure related projects.
- 7.5 The PWLB is usually the most economic source available to the Council. Following the Spending Review in October 2010, interest on PWLB loans were increased to 1 per cent above UK government gilts. However, on 1 November 2012 HM Treasury implemented a 'certainty rate' at a discount on that level of 0.2% on loans for those local authorities providing improved information and transparency on their locally-determined long-term borrowing and associated capital spending plans. This Council provided the necessary information and is therefore eligible for this 'certainty rate'.
- 7.6 The Autumn Statement in 2012 announced that the Government would make available a new concessionary public works loan rate to support strategic local capital investment projects. The PWLB project rate at 0.4% below the standard rate (across all loan types and maturities) became available from 1 November 2013. The Government is asking

each Local Enterprise Partnership to work with Local Authorities in their area to agree which projects should benefit from the cheaper borrowing rate. HM Treasury has approved Southend's application to borrow at the project rate for specified projects only.

- 7.7 Financing arrangements other than borrowing will be in the form of leases. These will be taken out to finance the purchase or use of assets such as equipment or vehicles.
- 7.8 In May 2016 HM Treasury launched a consultation proposing the abolition of the PWLB and the transfer of its functions to another body with the suggestion that this should be the Commissioners of the Treasury. The outcome is that the PWLB is still the statutory body operating within the United Kingdom Debt Management Office which is an Executive Agency of HM Treasury. Therefore all references to PWLB have been kept in the Treasury Management Strategy.

8 Timing of new borrowing

- 8.1 New borrowing will be undertaken as and when required to finance capital. The Council's Section 151 Officer is authorised to make application for loans during 2018/19 that are deemed appropriate for the long term financing of capital. The amount and timing of these loans will have regard to the Council's cash flow, the PWLB interest rates and the future requirements of the capital programme.

9 Debt restructuring policy

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

sought. Members would be notified via the quarterly reporting to Cabinet on treasury management activities.

10 Investments

10.1 See the Annual Investment Strategy.

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

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

12 Responsibility for the treasury management function

12.1 Under the constitution the Council's Section 151 officer who is the Chief Finance Officer (currently the Director of Finance and Resources), must take all steps that are considered appropriate for the administration of the financial affairs of the Council. This includes responsibility for the treasury management function.

12.2 The table in Annex 1 shows the treasury management activities and the sub-delegated responsibilities from the Chief Finance Officer to others.

12.3 Officers are required to explicitly follow policies and procedures.

12.4 The training needs of staff and members with treasury management responsibilities are assessed on a regular basis and training is arranged as necessary.

13 Risks

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

Credit and Counterparty risk

- 13.2 This is the risk that the organisation with which we have invested money becomes insolvent and cannot pay us back our investment. A prime objective of treasury management activities is the security of the principal sums invested and this is placed ahead of the investment return. Accordingly, the Council will ensure that robust due diligence procedures cover all external investment.
- 13.3 Investment activities are limited to the instruments, methods and techniques referred to in the Annual Investment Strategy. The use of limits and a combined matrix of investment criteria using credit ratings reflects a prudent attitude towards organisations with whom funds may be deposited. Investment activities will be limited to those who meet the criteria in this matrix when the investment is placed, with the exception of the UK part-nationalised banks and the Council's bank, and then limited by other relevant market information.
- 13.4 The policy in respect of those organisations from which the council may borrow, or with whom it may enter into other financing arrangements is set out in this Treasury Management Policy Statement and in the Annual Investment Strategy.

Liquidity risk

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

Interest Rate risk

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

Partnership risk

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

Market risk

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

Refinancing risk

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

Currency risk

- 13.11 The Council does not have any foreign currency risk as all investments are in pounds sterling.

Inflation risk

- 13.12 The Council will keep under review the sensitivity of its treasury assets and liabilities to inflation, and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposures.

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

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

SOUTHEND-ON-SEA BOROUGH COUNCIL
TREASURY MANAGEMENT STRATEGY 2018/19

1. Introduction

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

2. The Council's Budget

- 2.1 The budget includes provision for the financing costs of the Council's Capital Programme, including interest on external borrowings. Offsetting this, the Council will earn interest by temporarily investing its surplus cash, which includes unapplied and set-aside capital receipts. These budgets depend on many factors, not least the Council's level of revenue and capital budgets, use of reserves, methods of funding the budget requirement, interest rates, cash flow and the Council's view of risk.
- 2.2 The Council can be both a lender and borrower at the same time as it seeks to invest short-term surpluses and fund longer-term capital investment. The timing of the taking of borrowing is important to secure the most advantageous interest rates.
- 2.3 The net budget for financing costs and interest earned on balances is £8.6m in 2018/19.

3. The Council's Cash Surplus and Cash Flow

- 3.1 It is projected that surplus cash balances will average £70m (of which £38m is the estimated sum of medium and long term funds managed by external fund managers) during 2018/19 based on information currently available and historical spending patterns.

4. Interest Earnings (excluding property funds)

- 4.1 At the date of this report, the Bank of England base rate was 0.50%. Based on economic forecasts it is very difficult to predict the timing of any change in interest rates, however it has been assumed that during 2018/19 the bank base rate will increase to 0.75%. The average interest earned by the Council on its in-house lending is likely to be 0.65% but this does depend on market conditions.
- 4.2 Sensitivity analysis shows that a difference of 0.5% in interest rates would make a difference of £160k in external interest earned and a difference of £1m in average balances would make a difference of £7k in interest earned in a full year. This risk is reflected in the annual review of the robustness of estimates for the Council Budget undertaken by the Director of Finance and Resources.

5. Long Term Borrowing

- 5.1 There is no Central Government funding to support borrowing by the Council to fund capital projects. Under the Prudential Code the cost of any additional borrowing has to be financed by the Council.
- 5.2 The funding available to support capital investment is based on an assumption that the Council will undertake borrowing in 2018/19 of £40m, £16m of which relates to invest to save schemes and £3m is to start to reverse the under-borrowed position against CFR (see paragraph below). The revenue impact of this borrowing is funded in the Revenue Budget proposals. As an indicative guide to this revenue impact, there is a cost of approximately £70k for every £1m borrowed.
- 5.3 The Capital Financing Requirement (CFR) is the council's theoretical need to borrow but the Section 151 Officer can manage the council's actual borrowing position by either:
- 1 - borrowing to the CFR;
 - 2 - choosing to use temporary cash flow funds instead of borrowing (internal borrowing) or;
 - 3 - borrowing for future increases in the CFR (borrowing in advance of need).
- The Council is likely to begin 2018/19 in the second of the above scenarios. However, as the 2018/19 financial year progresses a combination of scenarios 1, 2 and 3 will be considered, as appropriate.
- 5.4 This authority will only borrow in advance of need where there is a clear justification for doing so and will only do so for the current capital programme or to finance future debt maturities.
- 5.5 So far in 2017/18 no new PWLB loans have been taken out.

5.6 The Council's current outstanding loans for both General Fund and Housing Revenue Account, (estimated as at 31 March 2018) which will need to be repaid:

• Southend-on-Sea Borough Council –GF	£ 160m
- Main Schemes	£151m
- Invest to Save Schemes	£9m
• Southend-on-Sea Borough Council – HRA	£ 77m
	£ 237m
• ECC transferred debt	£ 11.9m

5.7 New loans in 2018/2019 are estimated at:

• Southend-on-Sea Borough Council – GF	£ 40m
- Main Schemes	£24m
- Invest to Save Schemes	£16m
• Southend-on-Sea Borough Council - HRA	£ 0m
• ECC transferred debt	£ 0m

5.8 Repayments in 2018/2019 are estimated at:

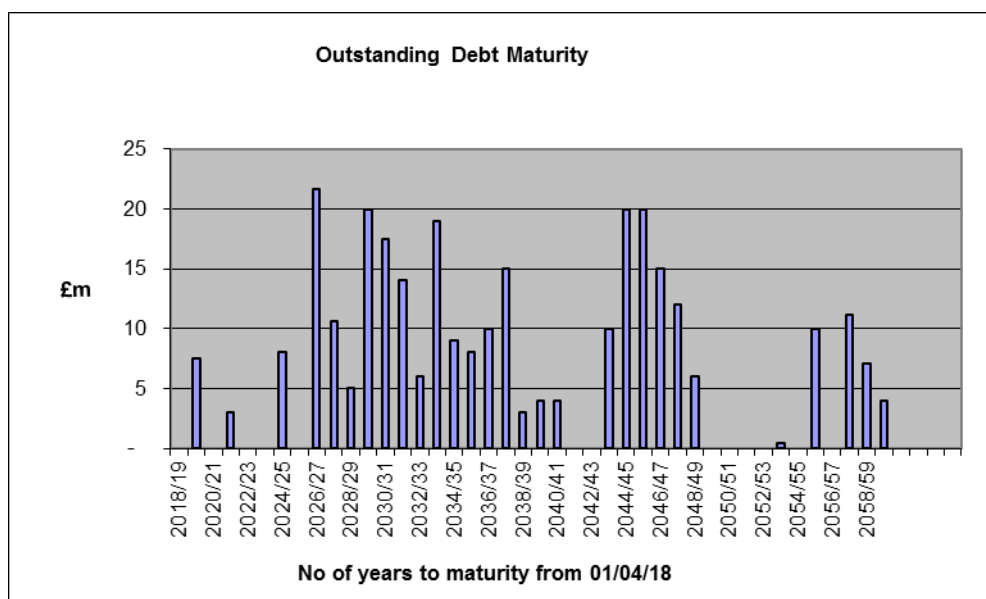
• Southend-on-Sea Borough Council - GF	£ 0.1m
- Main Schemes	£0m
- Invest to Save Schemes	£0.1m
• Southend-on-Sea Borough Council - HRA	£ 0m
• ECC transferred debt	£ 0.6m

5.9 The Council's current outstanding loans for both General Fund and Housing Revenue Account, (estimated as at 31 March 2019) which will need to be repaid:

• Southend-on-Sea Borough Council - GF	£ 200m
- Main Schemes	£175m
- Invest to Save Schemes	£25m
• Southend-on-Sea Borough Council – HRA	£ 77
	£ 277m
• ECC transferred debt	£ 11.3m

5.10 Outstanding debt relating to services transferred from Essex County Council (ECC) on 1 April 1998, remains under the management of ECC. Southend Borough Council reimburses the debt costs incurred by the County.

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



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

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

- 5.12 The potential for the early redemption of high interest loans is reviewed periodically, however the interest savings from the repayment of these loans is usually offset by the premiums that must be paid on their redemption and it has not yet been advantageous for the Council to discharge these loans prematurely. This followed advice from our treasury management advisers which demonstrated the excessive cost to the Council of any debt restructuring. Further advice from our treasury management advisers will be sought at the appropriate time about the potential for restructuring of debt and the timing of such a restructure.
- 5.13 Long term borrowing will normally be taken from the Public Works Loan Board (PWLB) since this is usually the most economic source available to the Council. If other sources are thought to be more advantageous and are permitted under the relevant legislation they will be considered.
- 5.14 As at 20 December 2017 rates of borrowing (from the PWLB) were between 2.65% and 2.69% for loans between 20 and 30 years (these rates include the certainty rate discount of 0.2%). During 2018/19 the investment and borrowing interest rates will be kept under review and the further use of capital balances will be considered in lieu of new borrowing where this is advantageous.

5.15 Where it is considered appropriate to take out new borrowing, regard will be given to the existing repayment profile (see 5.11 above) and the need for a spread of maturity dates to ensure that a significant value of loans do not mature at the same time. Loans are taken out for a range of periods in order that the Council continues to balance its debt profile over the longer term and so is not unduly exposed to the prevailing interest rates at the time of the possible debt replacement.

6. Monitoring and Review Arrangements

6.1 During 2018/19, within 7 working days of each month end, the Section 151 Officer will receive a report detailing performance and any non-compliance with the treasury management policy. He will either approve the report or raise the necessary queries to satisfy himself in relation to:

- (i) all transactions being properly authorised
- (ii) all transactions being with approved counterparties
- (iii) all transactions being in accordance with the Council's approved policy
- (iv) monitoring of security and liquidity (i.e. spread of investments by long term credit rating, financial sector, country, maturity profile)
- (v) in-house investment performance against 7 day LIBID
- (vi) investment performance for external fund managers for the relevant period

6.2 In addition to the monthly reports:

- (i) monitoring reports will be included in the regular Performance Monitoring report
- (ii) any changes affecting the treasury management strategy will be reported to Audit Committee for scrutiny and Cabinet for recommending to Council for approval.

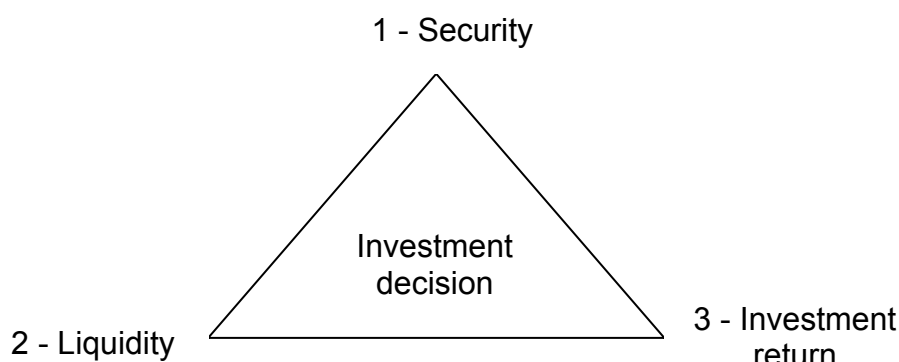
6.3 Benchmarking that considers security and liquidity will be achieved by appropriate comparisons with relevant statistical data.

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SOUTHEND-ON-SEA BOROUGH COUNCIL
ANNUAL INVESTMENT STRATEGY 2018/19

1 Investment Objectives

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



2 Policy on use of external fund managers

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

Type of fund	Fund manager	Estimated average balance in 2018/19 (£m)
Property Fund	Lothbury Investment Management Limited	8.3
Property Fund	Rockspring Property Investment Management Limited	8.8
Short Dated Bond Fund	AXA Investment Managers Limited	7.7
Short Dated Bond Fund	Royal London Asset Management	7.8

Enhanced Cash Fund	Payden & Rygel Global Limited	5.1
Total		37.7

- 2.2 Withdrawals may be made during 2018/19 so that a proportion of the council's debt can be repaid or the monies invested as part of the in-house managed funds. Conversely, monies may be placed with the existing and/or a new fund manager during 2018/19 to take full advantage of the knowledge and experience of fund managers in making investment decisions. As to whether monies are deposited or withdrawn, the reason and timing of the decision will have regard to the council's cash flow, relevant interest rates and advice from our treasury management advisers.
- 2.3 In consultation with our treasury management advisers and if appropriate the Section 151 officer will appoint one or more new fund managers in 2018/19 to enable investment of monies.
- 2.4 During 2018/19, if appropriate, the Section 151 officer will approve the placing of monies in Property Funds and will approve the direct investment in property. Any resulting updates to the capital programme would be submitted to Cabinet for approval.
- 2.5 During 2018/19, if appropriate, the Section 151 officer will approve the placing of monies in Short Dated Bond Funds or Enhanced Cash Funds.

3 Policy on investment of in-house managed funds

- 3.1 The remaining funds will be managed in-house with the investment period and amounts being determined by the daily cash flow requirements of the Council. Cash flow forecasts will be produced in order to inform in-house investment decisions.
- 3.2 This authority has accepted the risk of placing funds with financial institutions, rather than solely with the UK government Debt Management Office. However, the risk is minimised by this Annual Investment Strategy, which restricts the types of investment, the counterparties used and the limits for these counterparties.
- 3.3 Guidance from the Department of Communities and Local Government (DCLG) recommends that specified and non-specified investments are identified in the Investment Strategies of local authorities. Specified investments have relatively high security and liquidity, with high credit quality and a maturity of no more than a year. Non-specified investments are investments that do not fall into this category. The types of investment in this strategy and whether they are specified or non-specified are set out in Annex A.
- 3.4 During 2018/19 the Section 151 officer will, if appropriate, approve the placing of monies in deposit accounts, fixed term deposits or certificates of sterling cash deposits up to five years, subject to the proposed banks and building societies satisfying the investment criteria in a combined matrix of

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

- 3.5 During 2018/19 the Section 151 officer will, if appropriate, approve the placing of monies in Money Market Funds, term repurchase arrangements, Treasury bills, with other Local Authorities or the Debt Management Office. (The regulations regarding Money Market Funds are changing and when in force all references to Money Market Funds will relate to Low Volatility NAV funds, Constant NAV funds and Variable NAV funds.)
- 3.6 During 2018/19 the Section 151 officer will, if appropriate, approve the investment of monies into Development Companies (either partly or wholly owned by the Council) focused on regeneration and other infrastructure related projects, subject to the necessary due diligence being satisfactorily completed and in consultation with our treasury management advisers. The provision of loan facilities to such companies would count as capital investment in the company and any resulting updates to the capital programme would be submitted to Cabinet for approval.
- 3.7 Where credit ratings are used to assess credit risk, they will be checked when an investment is taken out to ensure that investment satisfies the criteria in this Investment Strategy. Our treasury management advisers provide alerts when credit ratings are changed by the three main rating agencies. If the credit ratings of an institution or investment no longer satisfy the criteria the monies will be withdrawn as soon as possible. This would depend on the maturity date or notice period.
- 3.8 During 2018/19 the Section 151 officer will, if appropriate, approve the short term borrowing of monies from other Local Authorities or the PWLB in order to manage the cash flow and maintain liquidity.
- 3.9 Fixed term deposits may be made directly with the banks and building societies or through the use of a broker. Monies will be placed with other Local Authorities through the use of a broker. Investments in Certificates of Deposit and Treasury bills will be made through the use of a custodian account. The Council acknowledges that it retains responsibility for all investment decisions made whether they are made on its behalf or not.
- 3.10 When investing in-house managed funds, the following are considered; the type of investment, the individual counterparty, the amount that can be invested, the method of placement of monies. These are summarised in Annex A.
- 3.11 The services of our treasury management adviser, Link Asset Services (formerly Capita Asset Services), will be used throughout 2018/19 to provide advice as well as credit rating and other market information regarding counterparties and types of investment. However, the Council recognises that responsibility for investment decisions remains with the authority at all times.

4 Investment Criteria for Funds Managed In-house

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

4.2 The credit rating components used in the matrices comprise:

- Short term ratings;
- Long term ratings.

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

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

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

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

4.6 These matrices are set out below:

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

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

	Fitch	S&P	Moodys
Short term rating minimum	F1	A-1	P-1
Long term rating minimum	A-	A-	A3

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

	Fitch	S&P	Moodys
Short term rating minimum	F1	A-1	P-1
Long term rating minimum	A	A	A2

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

	Fitch	S&P	Moodys
Short term rating minimum	F1	A-1	P-1
Long term rating minimum	AA-	AA-	Aa3

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

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

4.7 An example of the use of this credit ratings matrix as at 21 December 2017 is shown below (the long and short term ratings are Fitch, then Standard and Poors, then Moodys).

Financial Institution	Long Term Rating	Short Term Rating	Maximum length of investment
The Bank of New York Mellon	AA AA- Aa1	F1+ A-1+ P-1	3 years
Royal Bank of Canada	AA AA- A1	F1+ A-1+ P-1	12 months
Lloyds Bank Plc	A+ A Aa3	F1 A-1 P-1	12 months
National Westminster Bank Plc	BBB+ BBB+ A2	F2 A-2 P-1	Initially fails investment criteria

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

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

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

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

5 Investment Limits for Funds Managed In-house

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

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

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

- 5.2 These limits will also apply to supranationals (international organisations whereby member states transcend national boundaries or interests to share in the decision-making and vote on issues pertaining to the wider grouping). An example of a supranational is the European Investment Bank.
- 5.3 Fitch and S&P have set the UK's sovereign rating at AA and Moodys have set it at AA2. Therefore, to ensure the continued use of UK institutions that fall within our investment criteria, the country sovereign rating limits exclude the UK. The limit will therefore remain at £20 million for all counterparties where the parent company is registered in the UK.
- 5.4 Where the parent company of a bank is not registered in a country with a sovereign rating from Fitch and S&P of AAA or AA+ or a sovereign rating from Moody's of Aaa or Aa1 but that bank's UK operations are ring-fenced to the UK (as is the case for Santander UK), if these banks are included in the counterparty list they will have a counterparty limit of £20 million.
- 5.5 £20 million is 29% of the authority's estimated amount of investments for 2018/19 of £70m. £5m is 7% of the estimated investments. These are upper limits and would only be fully used in exceptional circumstances as, under normal circumstances, diversification is sought to reduce counterparty risk. These limits are deemed appropriate by our Treasury Management advisers.

5.6 To minimise counterparty risk, the limit on any investment with a bank or building society (with the exception of the Council's bank which is currently Barclays Bank) will be determined in the following way:

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

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

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

5.7 The Council's bank is the exception to these investment limits however, and under normal circumstances our intention would be to comply with a counterparty limit of £30 million, to enable the efficient and effective management of the Council's cash flow.

5.8 The limit on deposits in Money Market Funds will be £20 million with any one AAAM rated (or equivalent) liquidity fund. These work in the same way as a deposit account but the money in the overall fund is invested in a number of counterparties, therefore spreading the counterparty risk.

5.9 There are products being developed that are similar to, but not the same as Money Market Funds, such as 'term repurchase arrangements'. The risk associated with these funds is somewhere between a fixed term deposit and a Money Market Fund. The Section 151 officer will approve the placing of monies in these types of fund up to a maximum of £20 million per fund, if deemed appropriate and in consultation with our treasury management advisers.

- 5.10 Given the prevailing financial market conditions, financial institutions will inevitably devise various investment products to offer enhanced returns. The Council's Section 151 Officer will consider these in consultation with our treasury management advisers and will approve the placing of monies in such investment products with appropriate limits, only after the options and their associated risks have been fully analysed by the treasury management team and our treasury management advisers.
- 5.11 To maximise flexibility, there is no limit on deposits with the UK Government (e.g. Debt Management Office, HM Treasury bills). These deposits will have a maximum duration of 6 months.
- 5.12 The limit on deposits with other Local Authorities will be £40 million which is 57% of the authority's estimated amount of investments for 2018/19 of £70m. These deposits will have a maximum duration of 5 years. This is an upper limit and would only be fully used in exceptional circumstances. The limit is higher than the limit for other counterparties such as banks and other financial institutions due to the lower counterparty risk associated with Local Authorities. These limits are deemed appropriate by our Treasury Management advisers.

6 Fund Managers investment criteria

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

7 Markets in Financial Instruments Directive (MiFID II)

- 7.1 MiFID is the framework of European Union legislation for investment intermediaries that provide services to clients around financial instruments such as shares, bonds, units in collective investment schemes and derivatives and the organised trading in such financial instruments.
- 7.2 This was revised by MiFID II to improve the functioning of financial markets in light of the financial crisis and to strengthen investor protection. It recognises that investors have different levels of knowledge, skill and expertise. The application of specific regulatory obligations under MiFID depends on a client's 'regulatory' category.
- 7.3 Local Authorities are categorised as retail clients by default but may 'opt up' to become elective professional clients if certain criteria are satisfied. This Council satisfies the criteria to become an elective professional client and has 'opted up' where appropriate to ensure that it can continue to be eligible to invest in the current range of counterparties and investment products, as some are not available to retail clients.
- 7.4 MiFID II does not cover simple term deposits as it is only focussed on regulated products. This includes our investments in Money Market Funds, enhanced cash funds, short dated bond funds and property funds. The Council is classed as an elective professional client for all its relevant counterparties except for certain Money Market Funds where the fund has confirmed there is no requirement to 'opt up' as the products can continue to be used as a retail client.

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

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

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

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

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SOUTHEND-ON-SEA BOROUGH COUNCIL

CHANGES FROM THE REVISED 2017/18 TREASURY MANAGEMENT POLICY

Appendix	Paragraph	Change	Reason for the change
1	1.9	New paragraph setting out the key revisions to the CIPFA Code of Practice on Treasury Management published in December 2017.	To reflect external changes
1	7.8	Updated paragraph to reflect the latest position on the PWLB as an Executive Agency of HM Treasury.	To reflect external changes
1	13.2	Addition of the sentence 'Accordingly, the Council will ensure that robust due diligence procedures cover all external investment.'	To reflect changes as set out in Appendix 1 Paragraph 1.9
1	13.12	Addition of a paragraph regarding Inflation Risk.	To reflect changes as set out in Appendix 1 Paragraph 1.9
1	Annex 1	All references to 'Financial Accountant (Capital & Treasury Management)' changed to 'Finance Team Leader – Capital/Treasury Management' and all references to 'Financial Accountant' changed to 'Finance Team Leader'.	To reflect a change in the relevant job title.

Appendix	Paragraph	Change	Reason for the change
3	3.5	Update regarding the Money Market Fund regulations and the change of terminology to Low Volatility NAV funds, Constant NAV funds and Variable NAV funds.	To reflect external changes
3	7.1 to 7.4	New section regarding MiFID II.	To reflect changes as set out in Appendix 1 Paragraph 1.9

Southend-on-Sea Borough Council

Agenda
Item No.



**Report of the Chief Executive
to
Audit Committee
on
17th January 2018**

Report prepared by: BDO External Auditor

BDO: Grant Claims and Returns Certification Report for the Year ended 31 March 2017
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 2016/17 to the Audit Committee.

2. Recommendation

- 2.1 The Audit Committee accepts the Grant Claim and Return Certification Report for 2016/17.**

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 2016/17 was £21,284.

- 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 2016/17

6. Attachment:

BDO's Grant Claims and Returns Certification Report for the Year ended 31 March 2017



SOUTHEND-ON-SEA BOROUGH COUNCIL

GRANT CLAIMS AND RETURNS CERTIFICATION

Audit for the year ended 31 March 2017
4 January 2018

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INTRODUCTION

PURPOSE AND USE OF THIS REPORT

This report summarises the main issues arising from our certification of grant claims and returns for the financial year ended 31 March 2017.

Public Sector Audit Appointments Ltd (PSAA) regime

PSAA has a statutory duty to make arrangements for certification by the appointed auditor of the annual housing benefit subsidy claim.

We undertake the grant claim certification as an agent of PSAA, in accordance with the Certification Instruction (CI) issued by them after consultation with the Department for Work and Pensions (DWP).

After completion of the tests contained within the CI the grant claim can be certified with or without amendment or, where the correct figure cannot be determined, may be qualified as a result of the testing completed.

Other certification work

A number of other grant claims and returns are not within the scope of the terms of our appointment by PSAA, but Departments may still seek external assurance over the accuracy of the claim or return. These assurance reviews are covered by tripartite agreements between the Council, sponsoring Department and the auditor.

Under these arrangements the Council has engaged us to carry out the following for the year ended 31 March 2017:

- A 'reasonable assurance' review, based on the instructions and guidance provided by the Department for Communities and Local Government (DCLG), of the pooling of housing capital receipts return
- Completion of 'agreed-upon procedures', based on the instructions and guidance provided by the Department for Education, of the teachers' pensions return.

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

AUDIT QUALITY

BDO is totally committed to audit quality. It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections. BDO welcome feedback from external bodies and is committed to implementing necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US firms), the firm undertake a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years. We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our latest Transparency Report at www.bdo.co.uk.

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KEY FINDINGS

Below are the summarised results of our work on each grant claim and return subject to certification by us for the financial year ended 31 March 2017. Where our work identified issues which resulted in either an amendment or a qualification (or both), further information is provided in the Detailed Findings section on the following pages. An action plan is included at Appendix II of this report.

CLAIM OR RETURN	VALUE OF CLAIM OR RETURN (£)	QUALIFIED?	AMENDED?	IMPACT OF AMENDMENTS(£)
Housing benefit subsidy claim	£86,761,064	YES	YES	£28,243 increase in subsidy claimed by the Council
Pooling of housing capital receipts return	£2,874,650	NO	YES	£0
Teachers' pensions contributions return	£5,502,536	YES	YES	£1,593 increase in payments made by the Council

DETAILED FINDINGS

HOUSING BENEFIT SUBSIDY

Local authorities responsible for managing housing benefit are able to claim subsidies towards the cost of these benefits from central government. The final value of subsidy to be claimed by the Council for the financial year is submitted to central government on form MPF720A, which is subject to certification.

Our work on this claim includes verifying that the Council is using the correct version of the benefit system software and that this software has been updated with the correct parameters. We also agree the entries in the claim to underlying records and test a sample of cases from each benefit type to confirm that benefit has been awarded in accordance with the relevant legislation and is reported in the correct cell on form MPF720A.

The methodology and sample sizes are prescribed by PSAA and DWP. We have no discretion over how this methodology is applied.

The draft subsidy return provided for audit recorded a total amount claimed as subsidy of £86,761,064. The final submission was increased by £28,243 to £86,789,307.

FINDINGS AND CONCLUSION

Our audit of 60 individual claimant files highlighted a number of errors the Council made in administering benefit and calculating subsidy entitlement.

Guidance requires auditors to undertake extended '40+ testing' if initial testing identifies errors in the benefit entitlement calculation or in the classification of expenditure. '40+ testing' testing is also undertaken as part of our follow-up of prior year issues reported. This additional testing, combined with the original testing where there has been an overpayment of benefit, is extrapolated (or extended) across the population being tested.

Where the error can be isolated to a small population, the whole population can be tested and the claim form amended if appropriate.

Where there is no impact on the subsidy claim, for example where the error always results in an underpayment of benefit, we are required to report this within our qualification letter.

This approach resulted in 10 areas of '40+ testing', 4 areas of additional '100% testing' and 5 amendments to the claim form.

PSAA's methodology allows Council staff to perform the additional work, but requires auditors to re-perform a sample of the additional work undertaken by the Council to ensure conclusions have been satisfactorily reached and recorded. We were able to rely on the conclusions drawn by the Council.

Our work was completed and the claim was certified before the Government's deadline of 30 November 2017. Adjustments were made to the claim to reflect 5 amendments that needed to be made to the figures from the system, the most notable of which were a £54,738 increase in subsidy claimed as the system prevents payments being made to claimants at more than one address, and a £26,864 reduction in subsidy claimed because of payments that the system had duplicated. These two adjustments account for £27,874 of the total adjustment of £28,243, with the remainder being made up of three minor adjustments.

Our audit certification was qualified and we quantified the effect of the errors identified on the Council's entitlement to subsidy (based on our extrapolations) in a letter to the Department of Work and Pensions. The Council is awaiting the outcome of the DWP's review of our qualification letter on its final subsidy amount for the year. If the DWP decide to adjust the subsidy claimed by the extrapolated value of errors for all of the matters reported in the qualification letter, the Council will have over-claimed subsidy by net value of £34,818, which would become payable to the DWP.

A summary of our audit findings can be found on the next page. For context it should be noted that there are different classifications of overpayment, depending on what has caused the overpayment to occur. The Council is entitled to different rates of subsidy on the different overpayment classifications.

BENEFIT TYPE	ERROR TYPE	IMPACT ON CLAIM
Rent Allowances- Misclassification of overpayments: Local Authority Error	<p>In 2015/16 our testing identified 18 cases where the Council misclassified overpayments as Local Authority Error when they should have been classified as Eligible overpayments. This year '40+ testing' was carried out to determine whether this issue had continued in 2016/17 and to quantify the results.</p> <p>Our testing identified 3 cases in 2016/17 where the overpayment should have been classified as an Eligible overpayment. Therefore an extrapolation was included within our Qualification Letter.</p>	<p>Based on our extrapolation of the errors identified, we estimated that the Council overstated the amount of Local Authority Error overpayments by £37,517 and understated Eligible overpayments by £37,517.</p> <p>If DWP decide to adjust for the extrapolated error reported, this would increase the subsidy receivable by £15,007.</p>
Rent Allowances- Misclassification of overpayments: Eligible	<p>In 2015/16 our testing identified 10 cases where the Council misclassified an overpayment as an Eligible overpayment when it should have been classified as a Local Authority Error overpayment. This year '40+ testing' was carried out to determine whether this issue had continued in 2016/17 and to quantify the results.</p> <p>Our testing identified 5 cases where the overpayment should have been classified as Local Authority Error.</p> <p>An extrapolation was included within the Qualification Letter.</p>	<p>Based on our extrapolation of the errors identified, we estimated that the Council overstated the amount of Eligible overpayments by £356 and understated Local Authority Error overpayments by £356.</p> <p>If DWP decide to adjust for the extrapolated error reported, this would decrease the subsidy receivable by £142.</p>
76 Rent Allowances- Misclassification of overpayments: Eligible (Prior year)	<p>In 2015/16 our testing identified 5 cases where the Council misclassified overpayments as Eligible overpayments when they should have been classified as Local Authority Error overpayments. This year '40+ testing' was carried out to determine whether this issue had continued in 2016/17 and to quantify the results.</p> <p>Our testing identified 3 cases where the overpayment should have been classified as a Local Authority Error Overpayment.</p> <p>An extrapolation was included within the Qualification Letter.</p>	<p>Based on our extrapolation of the errors identified, we estimated that the Council overstated the amount of Eligible overpayments by £13,506 and understated Local Authority Error overpayments by £13,506.</p> <p>If DWP decide to adjust for the extrapolated error reported, this would decrease the subsidy receivable by £5,402.</p>
Rent Allowances- Standard Income	<p>In 2015/16 our testing identified 13 cases where the Council had incorrectly entered the claimant's income (other than earned income) in benefit calculations.</p> <p>This year '40+ testing' was carried out to determine whether this issue had continued in 2016/17 and to quantify the results.</p> <p>Our testing identified that income had been incorrectly entered into benefit calculations in 4 cases resulting in benefit being underpaid in 2 cases and 2 cases where it had no effect on the benefit paid.</p> <p>These underpayments have not been extrapolated.</p>	<p>As there is no eligibility to subsidy for benefit which has not been paid, the underpayments identified do not affect subsidy and have not, therefore, been classified as errors for subsidy purposes. However we have reported the processing errors identified, in the Qualification Letter.</p>

BENEFIT TYPE	ERROR TYPE	IMPACT ON CLAIM
Rent Allowances- Earned Income	<p>In 2015/16 our testing identified 6 cases where earned income had been incorrectly applied in benefit calculations. This year '40+ testing' was carried out to determine whether this issue had continued in 2016/17 and to quantify the results.</p> <p>Our testing identified that earned income had been incorrectly applied in benefit calculations in 6 cases resulting in benefit being underpaid in 3 cases, overpaid in 2 cases and 1 case where it had no effect on the benefit paid.</p> <p>An extrapolation was included within the Qualification Letter.</p>	<p>Based on our extrapolation of the errors identified, we estimated the Council overstated benefit expenditure by £40,047. The corresponding adjustment is to Local Authority Error overpayments.</p> <p>If DWP decide to adjust for the extrapolated error reported, this would decrease the subsidy receivable by £40,047.</p>
Rent Allowances- Non dependant Income	<p>In 2015/16 our testing identified 11 cases where the non-dependant income had been incorrectly entered in benefit calculations. This year '40+ testing' was carried out to determine whether this issue had continued in 2016/17 and to quantify the results.</p> <p>Our testing identified 9 cases where non dependant income had been incorrectly entered in benefit calculations resulting in benefit being underpaid in 1 case and 8 cases where it had no effect on the benefit paid.</p> <p>This underpayment has not been extrapolated.</p>	<p>As there is no eligibility to subsidy for benefit which has not been paid, the underpayment identified does not affect subsidy and has not, therefore, been classified as an error for subsidy purposes. However we have reported the processing errors identified, in the Qualification Letter.</p>
Rent Allowances- Cases excluded from the requirement to refer to the Rent Officer	<p>In 2015/16 our testing identified 4 cases where the weekly rent had been incorrectly entered in benefit calculations. This year '40+ testing' was carried out to determine whether this issue had continued in 2016/17 and to quantify the results.</p> <p>Our testing identified 4 cases where the weekly rent had been incorrectly entered in benefit calculations resulting in benefit being underpaid in 1 case and 3 cases where there had been overpayments of benefit paid.</p> <p>An extrapolation was included within the Qualification Letter.</p>	<p>Based on our extrapolation of the errors identified, we estimated the Council overstated benefit expenditure by £27,718. The corresponding adjustment is to Local Authority Error overpayments.</p> <p>If DWP decide to adjust for the extrapolated error reported, this would decrease the subsidy receivable by £27,718.</p>

BENEFIT TYPE	ERROR TYPE	IMPACT ON CLAIM
Rent Rebates- Standard Income	<p>In 2015/16 our testing identified 8 cases where income had been incorrectly applied in benefit calculations. This year '40+ testing' was carried out to determine whether this issue had continued in 2016/17 and to quantify the results.</p> <p>Our testing identified 7 cases where income had been incorrectly applied in benefit calculations resulting in benefit being underpaid in 2 cases, overpaid in 3 cases and 2 cases where it had no effect on the benefit paid.</p> <p>An extrapolation was included within the Qualification Letter.</p>	<p>Based on our extrapolation of the errors identified, we estimated the Council overstated benefit expenditure by £4,528. The corresponding adjustment is to Local Authority Error overpayments.</p> <p>If DWP decide to adjust for the extrapolated error reported, this would decrease the subsidy receivable by £4,528.</p>
Rent Rebates- Earned Income	<p>In 2015/16 our testing identified 9 cases where earned income had been incorrectly applied in benefit calculations. This year '40+ testing' was carried out to determine whether this issue had continued in 2016/17 and to quantify the results.</p> <p>Our testing identified 6 cases where earned income had been incorrectly applied in benefit calculations resulting in benefit being underpaid in 3 cases, overpaid in 2 cases and 1 case where it had no effect on the benefit paid.</p> <p>An extrapolation was included within the Qualification Letter.</p>	<p>Based on our extrapolation of the errors identified, we estimated the Council overstated benefit expenditure by £1,867. The corresponding adjustment is to Local Authority Error overpayments.</p> <p>If DWP decide to adjust for the extrapolated error reported, this would decrease the subsidy receivable by £1,867.</p>
Rent Rebates- Misclassification of overpayments: Technical	<p>In 2015/16 our testing identified 16 cases where the Council misclassified overpayments as Technical overpayments when they should have been either Eligible overpayments or Local Authority Error overpayments. This year '40+ testing' was carried out to determine whether this issue had continued in 2016/17 and to quantify the results.</p> <p>Our testing identified 54 cases where the Technical overpayment should have been classified as an Eligible Overpayment</p> <p>An extrapolation was included within the Qualification Letter.</p>	<p>Based on our extrapolation of the errors identified, we estimated that the Council overstated the amount of Technical overpayments by £74,697 and understated Eligible overpayments by £74,697.</p> <p>If DWP decide to adjust for the extrapolated error reported, this would increase the subsidy receivable by £29,879.</p>

POOLING OF HOUSING CAPITAL RECEIPTS

Local authorities are required to pay a portion of any housing capital receipts they receive into a national pool administered by central government. The Council is required to submit quarterly returns notifying central government of the value of capital receipts received.

The annual return provided for audit recorded total receipts of £2,874,650 of which £2,874,650 was payable to DCLG.

DCLG requires that this return is certified but the work is not part of PSAA's certification regime. We therefore agreed a separate letter of engagement to provide a reasonable assurance report.

FINDINGS AND IMPACT ON RETURN

The return was amended to include the actual amount of new-build expenditure between 01 April 2016 and 31 March 2017, which was initially excluded from the return.

The Council has agreed to this amendment but at the time of drafting this report the amendment process has not been completed. Once this amendment has been made we will issue our unqualified reasonable assurance report in respect of this claim.

TEACHERS' PENSIONS

Local authorities that employ teachers are required to deduct pension contributions and send them, along with employer's contributions, to the Teachers' Pensions office (the body which administers the Teachers' Pension Scheme on behalf of the Department for Education). These contributions are summarised annually on form EOYC, which the Council is required to submit to Teachers' Pensions.

The Department for Education requires that Form EOYC is certified but the work is not part of PSAA's certification regime. We therefore agreed a separate letter of engagement to provide an 'agreed-upon procedures' assurance report before the Government's deadline for submitting the audited return.

FINDINGS AND IMPACT ON RETURN

Our work identified that there was a difference of £76 between the total employer contributions reported by the Council's payroll records and the value reported in form EOYC. This difference has been included in our report to the Department for Education.

Also, the original form EOYC provided to us reported that a refund to the value of £1,593 had been made to a teacher and therefore the Council's contributions to Teachers' Pensions was reduced accordingly. However our work identified that no refund was made to the teacher and therefore form EOYC was amended to remove the reported refund before submission to Teachers' Pensions.

08 APPENDICES

APPENDIX I: STATUS OF PRIOR PERIOD RECOMMENDATIONS

RECOMMENDATION	PRIORITY	RESPONSIBILITY	TIMING	PROGRESS	STATUS
HOUSING BENEFITS					
Complete increased, targeted sample checks on the work completed by benefit assessors to identify any particular training needs and to ensure that any known errors are being addressed.	High	Benefits Manager	April 2016 Onwards	We have been able to evidence that increased and targeted checking is now undertaken by the Quality & Assurance Team with monthly performance monitoring reports to the Director of Finance. This report includes the type of errors and resulting training given.	Open Our 2016/17 audit evidences that the volume of errors identified has reduced significantly in comparison to 2015/16. It is possible that continuation of this checking process in 2017/18 will further reduce this volume.
Provide specific targeted training to the benefits team on how to classify overpayments.	High	Benefits Manager	April 2016 Onwards	We have been able to evidence that training has been provided to staff and forms part of the annual refresher training programme.	Open Our 2016/17 audit evidences that the volume of errors identified has reduced significantly in comparison to 2015/16. It is possible that continuation of this training process in 2017/18 will further reduce this volume.
TEACHERS' PENSION					
Identify a more efficient way to extract this information from the Agresso system.	High	Marie Kohler and Mike Miller	April 2017	The extraction process remains challenging and our work identified errors in the transfer of data from the payroll records to the EOYC form.	Open Further work needs to be undertaken to improve the process of extracting the data from the Agresso payroll records to the EOYC form.
Set up a new process or function on Agresso to take into consideration the back payment and allocate to the month the missing pay is relevant to.	Medium	Marie Kohler and Mike Miller	April 2017	No evidence of a new process or function on Agresso has been provided.	Open However no matters of this nature arose from our work in 2016/17.
Undertake training for any new employees or where there have been any changes to the Teachers' Pension guidance.	Medium	Marie Kohler	January 2017 and on - going	No evidence of any additional training being undertaken has been provided.	Open Key staff absences caused difficulties in form EOYC completion and review processes, demonstrating the importance of clear training guidance being available so that other officers can address requirements during these absences.

APPENDIX II: FEES SCHEDULE

	2016/17 FINAL	2016/17 PLANNED	2015/16 FINAL	EXPLANATION FOR VARIANCES
	£	£	£	
PSAA regime				
Certification fee (Housing benefit subsidy claim)	21,284	21,284	22,226	N/A
TOTAL PSAA REGIME FEES	21,284	21,284	22,226	
Other certification work				
Pooling of Housing Capital Receipts return	3,500	2,500	2,500	Additional time was incurred as a result of the problems encountered with the auditing of this return, amendments required to the return, including obtaining agreement to the amendment and to get the amendment processed on the Logasnet system.
Teachers' pensions return	7,000	8,000	9,500	N/A
TOTAL CERTIFICATION FEES	10,500	10,500	12,000	

FOR MORE INFORMATION:

LISA CLAMPIN
Engagement lead

T: +44 (0)1473 320 716
E: lisa.clampin@bdo.co.uk

ANDREW BARNES
Manager

T: +44 (0)1473 320 745
E: andrew.barnes@bdo.co.uk

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 the Chief Executive
to
Audit Committee
on
17th January 2018

Report prepared by: BDO External Auditor

BDO: Annual Audit Letter 2016/17
Executive Councillor – Councillor Moring
A Part 1 Public Agenda Item

1. Purpose of Report

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

2. Recommendation

- 2.1 The Audit Committee approves the Annual Audit Letter for 2016/17.**

3. Background

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

4. Corporate Implications

- 4.1 Contribution to Council's Aims and Priorities
Audit work contributes to the delivery of all corporate Aims and Priorities.
- 4.2 Financial Implications
The code audit fee for 2016/17 was £142,816.
- 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 (NAO)' Code of Audit Practice (the Code). By considering this report, the Committee can satisfy itself that this requirement is being discharged.

4.4 People and Property Implications

None

4.5 Consultation

The Annual Audit Letter for 2016/17 has been discussed and agreed with the Director of Finance and Resources.

4.6 Equalities Impact Assessment

None

4.7 Risk Assessment

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

4.8 Value for Money

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

4.9 Community Safety Implications and Environmental Impact

None

5. Background Papers

None

6. Attachment: BDO's Annual Audit Letter 2016/17



SOUTHEND-ON-SEA BOROUGH COUNCIL

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ANNUAL AUDIT LETTER

Audit for the year ended 31 March 2017
26 October 2017



EXECUTIVE SUMMARY

PURPOSE OF THE LETTER

This annual audit letter summarises the key issues arising from the work that we have carried out in respect of the year ended 31 March 2017. It is addressed to the Council but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public. It will be published on the website of Public Sector Audit Appointments Limited.

RESPONSIBILITIES OF AUDITORS AND THE TRUST

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

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

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

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

BDO LLP
26 October 2017

AUDIT CONCLUSIONS

FINANCIAL STATEMENTS

We issued our unmodified true and fair opinion on the Council's financial statements on 15 September 2017.

We reported our detailed findings to the Audit Committee on 6 September 2017.

Our audit identified one material misstatement in respect of the indexation applied to council dwellings. This has increased net assets by £8.195m and unusable reserves by £7.582m and decreased the deficit on the provision of services by £0.613m. This has not impacted on the closing General Fund or Housing Revenue Account (HRA) reserve balances.

We reported on three uncorrected misstatements which management and the Audit Committee concluded were immaterial.

USE OF RESOURCES

We issued our unmodified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 15 September 2017.

Whilst the Council has identified a significant funding gap, appropriate action is being taken to ensure the matter is addressed and the Council has a track record of achieving its financial plans. Sufficient reserves and balances are available to support the Council's services in the medium term, should there be under performance against savings plans.

FINANCIAL STATEMENTS

OPINION

We issued our unmodified true and fair opinion on the Council's financial statements on 15 September 2017.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

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

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

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RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
<p>Revenue Recognition</p> <p>Under auditing Standards there is a presumption that income recognition presents a fraud risk.</p> <p>In particular, we consider there to be a significant risk in respect of the existence (recognition) of fees and charges included as revenue in the comprehensive income and expenditure statement (CIES).</p>	<p>Our review of revenue recognition focused on testing the existence of fees and charges across all service areas within the CIES. We substantively tested an extended sample of fees and charges to confirm that income had been accurately recorded and earned in the year.</p> <p>We substantively tested an extended sample of year-end debtor balances to confirm that income had been accurately recorded and earned in the year.</p> <p>We reviewed the Council's policy to only accrue for items with a value of greater than £5,000 and made an assessment of whether this could lead to a material misstatement.</p>	<p>We identified that £1.006m of income which the Council had given to schools/colleges was incorrectly consolidated into the Council's CIES as external schools income. We identified 3 schools/colleges for which the income had been consolidated incorrectly. The amounts involved were individually immaterial with the only non-trivial amount being in relation to Seabrook College. The Council has adjusted for this error.</p> <p>We identified two transactions that had not been accrued at 2015/16 year-end. We concluded the potential extrapolated error to be a misstatement of £507,000.</p> <p>We identified two transactions that had not been accrued at 2016/17 year-end. We concluded the potential extrapolated error to be a misstatement of £290,000.</p> <p>We concluded that the likelihood of the policy to only accrue for items with a value of greater than £5,000 resulting in a material misstatement is remote.</p>

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
<p>Property, Plant and Equipment Valuations</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 five 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>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 reviewed the instructions provided to the valuer and reviewed the valuer's skills and expertise in order to determine if we could rely on the management expert.</p> <p>We confirmed that the basis of valuation for assets valued in year was appropriate based on their usage. We confirmed that an instant build modern equivalent asset basis has been used for assets valued at depreciated replacement cost.</p> <p>We reviewed the indices applied by the Council, and confirmed that the basis used for calculating them was appropriate.</p> <p>We reviewed valuation movements against indices of price movements for similar classes of assets and followed up valuation movements that appeared unusual against indices.</p>	<p>From our review of the instructions provided to the valuer and assessment of the expertise of the valuer, we were satisfied that we can rely on the majority of their work.</p> <p>However our review of the valuation assumptions applied concluded that the value of council dwellings was materially understated. We worked with the Council's internal valuer using local data which indicated the uplift should be 6%, instead of the 3.5% that had been used. This has increased the value of council dwellings by £8.2m and the revaluation reserve by £7.6m. It has also decreased the deficit on the provision of services by £0.6m.</p> <p>We also identified 27 assets which had not been revalued within the last five years and 12 assets which have never been revalued. In response to this, the Council arranged for the 9 highest value assets to be revalued and accounted for as such. This left 30 assets which had not been revalued with a total net book value of £1.657m. We assessed that the value of these assets would not move by a material amount if a revaluation had been undertaken.</p>

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
<p>Pension liability assumptions</p> <p>The pension liability comprises the Council's share of the market value of assets held in the Essex Pension Fund and the estimated future liability to pay pensions.</p> <p>An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation. Management has agreed the assumptions made by the actuary to support the estimate and these are disclosed in the financial statements.</p> <p>There was a risk the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.</p> <p>We increased the risk from a normal risk to a significant risk following a review of assumptions used by the actuary for the valuation of the present value liability to pay future pensions.</p>	<p>We agreed the disclosures to the information provided by the pension fund actuary.</p> <p>We requested assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary.</p> <p>We checked whether any significant changes in membership data were communicated to the actuary.</p> <p>We reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.</p>	<p>We did not identify any issues regarding the accuracy of the disclosures in the financial statements or the accuracy and completeness of data provided by the fund to the actuary.</p> <p>Our review of the assumptions used to calculate the present value of future pension obligations concluded that, overall, they were reasonable.</p>

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
<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 • new Expenditure and Funding Analysis (EFA) note • change to the Segmental Reporting note • new Expenditure and Income analysis note. <p>These changes required a restatement to the 2015/16 CIES.</p> <p>There was a risk that these presentational changes were not correctly applied in the financial statements.</p>	<p>We reviewed the draft financial statements and checked 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>We confirmed that the analysis by service in the CIES is consistent with the internal reporting within the Council.</p> <p>We reviewed the restatement of the comparative 2015/16 information to ensure that this was presented consistently with the current year basis.</p>	<p>We identified that the methodology used in the Expenditure and Funding Analysis Note was different between the current and prior periods. This was adjusted with no net impact on the position reported.</p>

FINANCIAL STATEMENTS

OUR APPLICATION OF MATERIALITY

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

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

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

The materiality for the financial statements as a whole was set at £7.7 million. This was determined with reference to a benchmark of gross expenditure (of which it represents 2 per cent) which we consider to be one of the principal considerations for the Council in assessing financial performance.

AUDIT DIFFERENCES

Our audit identified one material misstatement in respect of the indexation applied to council dwellings. Adjusting for this increased net assets by £8.2m and unusable reserves by £7.6m and decreased the deficit on the provision of services by £0.6m. This did not impact on the closing General Fund or Housing Revenue Account (HRA) reserve balances.

There were three unadjusted audit differences in respect of the:

- prior period bad debt provision being overstated, as given information now available to the Council it was concluded that the prior year bad debt provision was overstated by £1.7m. This has no overall financial impact as adjusting this would result in the current year's bad debt provision contribution being increased to arrive at the same final position
- prior period income within the cost of services being understated by an extrapolated £0.5m, due to income items relating to the prior period being recognised in the current year, as they were not accrued for in the prior period. This had no overall financial impact, as the income should have been included in the prior year and therefore the brought forward balances would have been higher
- extrapolated understatement of adult social care income by £0.3m due to income from client contributions relating to the current period being recognised in 2017/18, rather than being accrued for in the current year

Two of these differences had no impact on the overall financial position, as they relate to timing differences between years. If corrected the final difference would increase net assets and decrease the deficit on the provision of services by £0.3m.

We consider that these uncorrected misstatements do not have a material impact on our opinion on the Council's financial statements.

FINANCIAL STATEMENTS

OTHER MATTERS WE REPORT ON

Strategic report

The information given in the strategic report in the Statement of Accounts for the financial year was consistent with the financial statements.

Annual governance statement

The annual governance statement met the disclosure requirements set out in the guidance 'Delivering Good Governance in Local Government: Framework' (2016 edition) published by CIPFA/SOLACE and was not misleading or inconsistent with other information that is forthcoming from the audit.

INTERNAL CONTROLS

We did not find any significant deficiencies in internal controls during the course of our audit. A number of other areas for improvement were identified which we have discussed with management.

WHOLE OF GOVERNMENT ACCOUNTS

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

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

The DCT has been amended as a result of the audit to reclassify the small number of balances amended by the audit to make them consistent with the final financial statements.

AUDIT CERTIFICATE

The audit certificate to close the audit will be issued upon completion of the WGA submission.

USE OF RESOURCES

CONCLUSION

We issued our unmodified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 15 September 2017.

SCOPE OF THE AUDIT OF USE OF RESOURCES

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

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

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

OUR ASSESSMENT OF SIGNIFICANT RISKS

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

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

USE OF RESOURCES

RISK DESCRIPTION	AUDIT FINDINGS	CONCLUSION
<p>Sustainable finances</p> <p>The latest Medium Term Financial Strategy (MTFS) to 2020/21 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 reviewed the latest MTFS which covers the four year period to 2020/21. The Council set a balanced budget for 2017/18 but this required planned savings of £6.9m to be achieved. The MTFS forecasts a budget gap totalling £22.9m over the remaining three years which will need to be funded through either savings or additional revenue in order to maintain the current general fund position. Although the current budget gap is significant the Council is aware of the importance of finding sustainable savings or new revenue streams.</p> <p>We reviewed the assumptions used in developing the MTFS and found them to be reasonable. A prudent approach to expectations of future government funding has been adopted by the Council.</p> <p>The Council continues to maintain a level of balances and earmarked reserves in accordance with the plans set out in the MTFS. As at 31 March 2017, the General Fund balance was £11m which is within the Director of Finance and Resources recommended range of £10m to £12m. General Fund earmarked reserves were £64m increased from £59m at 31 March 2016.</p> <p>The Council's overall useable reserves, which include the General Fund, HRA, Earmarked Reserves (including schools), have increased by £8m in 2016/17.</p>	<p>Whilst the Council has identified a significant funding gap, appropriate action is being taken to ensure the matter is addressed and the Council has a track record of achieving its financial plans.</p> <p>Sufficient reserves and balances are available to support the Council's services in the medium term, should there be under performance against savings plans.</p> <p>Therefore we are satisfied that the Council has sufficient reserves available and is undertaking appropriate arrangements to manage the budget gap in a way that will ensure the Council remains financially sustainable over the period of the MTFS.</p>

APPENDIX

REPORTS ISSUED

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

REPORT	DATE
Audit plan	21 March 2017
Audit completion report	1 September 2017
Annual audit letter	26 October 2017

FEES

We reported our original fee proposals in our audit plan.

AUDIT AREA	FINAL FEES £	PLANNED FEES £
Audit - scale fees	142,816	142,816
Housing benefits subsidy claim	21,284	21,284
Total audit	164,100	164,100
Fees for non-audit services	11,700	11,700
Total assurance services	175,800	175,800

FOR MORE INFORMATION:

LISA CLAMPIN
Engagement lead

T: 01473 320716
E: lisa.clampin@bdo.co.uk

ANDREW BARNES
Manager

T: 01473 320745
E: andrew.barnes@bdo.co.uk

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
17 January 2017

Report prepared by: BDO External Auditor

BDO: Progress Report to Those Charged with Governance
Executive Councillor – Councillor Moring
A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To report on progress in delivering the 2016/17 and 2017/18 Annual Audit Plan's.

2. Recommendation

- 2.1 The Committee accepts progress made in delivering the Annual Audit Plan's for 2016/17 and 2017/18.**

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 2016/17 and 2017/18.

- 4.3 Legal Implications

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

- 4.4 People and Property Implications

None

4.5 Consultation

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

4.6 Equalities Impact Assessment

None

4.7 Risk Assessment

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

4.8 Value for Money

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

4.9 Community Safety Implications and Environmental Impact

None

5. Background Papers

None

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

SOUTHEND-ON-SEA BOROUGH COUNCIL

Progress report to those charged with governance

January 2018



INTRODUCTION

Summary of progress

This report provides the Audit Committee with an update of the progress in delivering the 2016/17 and 2017/18 audits.

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.

2016/17 Annual Audit Plan - progress summary as at 5 January 2018

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.	Work completed.	Planning Letter 2016/17 Reported to the Audit Committee in June 2016. Audit Plan 2016/17 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 July 2017.	Work completed.	We report to management any deficiencies in internal control identified during the audit. Where such deficiencies are significant we also report them in our Audit Completion Report .
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.	Work completed.	Audit Completion Report Reported to the Audit Committee on the 6 September 2017. Opinion on the financial statements Opinion issued on 15 September 2017.
Whole of government accounts audit	Audit of the consolidation pack for consistency with the audited statement of accounts. Consolidation pack opinion – deadline set as 30 September 2017.	Work completed.	Opinion on the WGA Consolidation Pack Opinion issued on the 15 December 2017.
Use of resources	New 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 achieve planned and sustainable outcomes for taxpayers and local people.	Work completed.	Audit Completion Report Reported to the Audit Committee on the 6 September 2017. VFM conclusion Opinion issued 15 September 2017.

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Area of work	Scope / Associated deadlines	Status	Outputs / Date
	<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>		
Annual Audit Letter	Public-facing summary of audit work and key conclusions for the year. To be finalised by 31 October 2017.	Final report agreed.	Annual Audit Letter Issued by the 31 October deadline. Being reported to the Audit Committee on 17 January 2018.
Grants and returns	To audit and submit the Housing Benefit subsidy grant claim by 30 November 2017 deadline.	Work completed.	Housing Benefit grants claim certified in line with the 30 November 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 30 November 2017.</p>	<p>The Teachers' Pension return was certified in line with the deadline.</p> <p>The audit of the Housing Pooled Capital Receipts return work is complete, but there has been a delay in certification. This is because of delays in getting the amendment required as a result of our work agreed by the Council and amended on the DCLG system.</p> <p>This is expected to be completed before the Audit Committee.</p>	<p>Teachers' Pension return certified in line with the 30 November deadline.</p> <p>Housing Pooled Capital Receipts return work to be certified once the required amendments have been made on the DCLG system.</p>
Grants Report	Summary of our certification work completed on 2016/17 claims, to be issued by February 2018.	Work completed.	Grants Report to those charged with governance being reported to the Audit Committee on 17 January 2018.

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2017/18 Annual Audit Plan - progress summary as at 5 January 2018

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 2017/18 Reported to the Audit Committee in June 2017. Audit Plan 2017/18 Target issue date March 2018.
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 2018.	Start date agreed.	We report to management any deficiencies in internal control identified during the audit. Where such deficiencies are significant we also report them in our Audit Completion Report .
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 31 July 2018.	Start date agreed.	Audit Completion Report Target issue date July 2018. Opinion on the financial statements Target issue date July 2018.
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 August 2018.	Start date to be agreed.	Opinion on the WGA Consolidation Pack Target date August 2018.
Use of resources	New 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 achieve planned and sustainable outcomes for taxpayers and local people.	Start date to be agreed.	Final Report to the Audit Committee Target issue date July 2018. VFM conclusion Target issue date July 2018.

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Area of work	Scope / Associated deadlines	Status	Outputs / Date
	<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 31 July 2018.</p>		
Annual Audit Letter	Public-facing summary of audit work and key conclusions for the year. To be finalised by 31 October 2018.	This will follow completion of the Audit.	Annual Audit Letter Target issue date October 2018.
Grants and returns	To audit and submit the Housing Benefit subsidy grant claim by 30 November 2018 deadline.	Start date to be agreed.	Housing Benefit grants claim and return to be audited by 30 November 2018 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 2018.</p> <p>Housing Pooled Capital Receipts: Deadline 30 November 2018.</p>	Start date to be agreed.	<p>Teachers' Pension grants claim and return to be audited by the 30 November 2018 deadline.</p> <p>Housing Pooled Capital Receipts grants claim and return to be audited by the 30 November 2018 deadline.</p>
Grants Report	Summary of our certification work completed on 2017/18 claims, to be issued by February 2019.	To be drafted after certification work concluded.	Grants Report to those charged with governance to be issued by February 2019.

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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 the Chief Executive

to

Audit Committee

on

17 January 2018

Report prepared by: Daniel Helps, Senior Manager Counter
Fraud & Investigation

Counter Fraud & Investigation Directorate: 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 by the Counter Fraud & Investigation Directorate (CFID) in delivering the Counter Fraud Strategy and work programme for 2017/18.

2. Recommendation

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

3. Proactive Work Plan

- 3.1 **Appendix 1** sets out the current status of the tasks contained within the proactive work programme set to be delivered throughout the year.
- 3.2 If during the year changes or additions to the plan are proposed between the CFID and the Section 151 Officer, these will be brought back to the Committee and included in the work plan.

Fraud Risk Assessment

- 3.3 CFID has developed a detailed floor-up Fraud Risk Assessment (FRA) process (in conjunction with the Cabinet Office) which is in the process of being delivered by the team, by:
- using **targeted questionnaires** tailored to each service area
 - having **individual interviews** with staff across the organisation
 - holding **workshops** with groups of staff to increase the understanding of the process and quality of output.

Targeted Questionnaires

- 3.4 Alongside these risk assessments, the CFID has also created an intelligence-led questionnaire which will be distributed to key staff to assess compliance with the UK Bribery Act (UKBA) and Counter Money Laundering requirements. An online portal utilising the new home page that has been created by IT will enable more detailed analysis and ease of reporting.

Individual Interviews

- 3.5 The interviews ensure that CFID can capture exactly all the relevant elements of the service delivery approach, risk stance and its impact on the rest of the Council.

Workshops

- 3.6 The workshops will ensure that the emerging crime threats are captured and acknowledged by the business areas to create a detailed Fraud Risk Matrix containing the risks, mitigation and on-going management, i.e. with supplier support, internal audit review process etc.

4. Investigations

- 4.1 The CFID has made good progress in the investigation of fraud and other economic crime perpetrated against the council. **Appendix 2** details the flow of cases into the CFID so far since 1 April 2017.

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. This action will benefit the authority by means of returning housing stock to those in need or gaining the assets of those who seek to profit from their criminal behaviour.

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. Appendices

- Appendix 1: Counter Fraud Work Plan for Sept 2017 to Jan 2018
- Appendix 2: Southend Borough Council Case Summary to 8 December 2017

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Appendix 1 - Counter Fraud & Investigation Directorate

Counter Fraud Work Plan for April 2017 to March 2018

Risk area	Tasks	Planned for	Current status
Council-wide	Plan Fraud Risk Assessment (FRA) workshops in these areas: <ul style="list-style-type: none"> • Department for Place • Department for People • Department of the Chief Executive 	Complete	Meetings were held between the CFID and Deputy Chief Executives and Chief Finance Officer to discuss and agree the delivery of the FRA process.
Council-wide	Conduct Fraud Risk Assessment workshops in these areas: <ul style="list-style-type: none"> • Department for Place • Department for People • Department of the Chief Executive 	July 2017 – Aug 2017 Revised: February – March 2018	The first phase of the FRA process has been completed for: <ul style="list-style-type: none"> • Procurement • South Essex Homes • Housing • Council Tax • NNDR • Registrars • Parking.
Council-wide	UK Bribery Act (UKBA) Compliance Review. A questionnaire will be distributed to all Managers to ensure UKBA compliance.	March 2018	Questionnaire has been developed in conjunction with the Information Manager at Thurrock Council where the content will be tested by selected staff to ensure suitability.
Council-wide	Counter Money Laundering (CML) Compliance Review. A questionnaire will be distributed to all staff to ensure CML compliance.	March 2018	Modifying the initial questionnaire as a result of the testing has resulted in a delay in its distribution.
Council-wide	Process the results from the Fraud Risk Assessment workshops & produce report and action plan to CMT.	Feb 2018	Awaiting workshops.

Appendix 1 - Counter Fraud & Investigation Directorate
 Counter Fraud Work Plan for April 2017 to March 2018

Risk area	Tasks	Planned for	Current status
National Fraud Initiative, Data Matching Exercise	Ensure services investigate high level recommended data matches until the 2017 exercise is complete.	Apr 2018	<p>A working group is being re-established with respective services to:</p> <ul style="list-style-type: none"> • co-ordinate the work required to produce and upload data sets • monitor and report upon action taken to investigate relevant data matches. <p>The first update on progress made to review data matches will be included in the report to the April 2018 Audit Committee.</p>

**Appendix 2 Counter Fraud & Investigation Directorate
Southend Borough Council Case Summary to 08 December 2017**

Case Status	Fraud Type				
	Revenue	Housing Application Fraud	Blue Badge	Other	Total
Case Load, Referrals:					
Received (between 1/4/17 – 08/12/17)	21	5	46	22	94
Passed to another agency	0	0	0	0	0
Investigation created	7	5	27	9	48
Closed	1	0	0	1	2
Outcomes Achieved **These Figures represent the status of investigations conducted by the Directorate that commenced during 2017 but also those received in previous years but concluded in between April 2017 – December 2017					
Formal Caution	0	0	0	0	0
Referred to Other Agency	0	0	1	0	1
Prosecution	1	0	0	1	2
Housing Application Stopped	N/A	1	N/A	0	1
Blue Badge Recovered	N/A	N/A	5	0	5
Warning Issues	0	0	29	0	29
Referred to HR	N/A	N/A	N/A	3	3
Staff Dismissal	0	0	0	1	1
No Further Action	4	1	16	6	27

Value of Proven Fraud April 2017 – December 2017 (concluded investigations)

Prosecution	Cautions and Warnings	Financial Savings
£17,091.31	£21,750	£3,750
Housing application stopped		TOTAL
£18,000		£58,341.31

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Southend-on-Sea Borough Council

Agenda
Item No.

10

Report of the Chief Executive

to

Audit Committee

on

17 January 2018

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 2017/18.

2. Recommendations

2.1 The Audit Committee:

- **notes the progress made in delivering the 2017/18 Internal Audit Strategy**
- **approves the amendments to the Audit Plan.**

3. Internal Audit Plan Status

- 3.1 **Appendix 1** sets out the current status of the audit work planned for the year as at 5th January 2018.

3.2 The Audit Plan:

- has now been updated to reflect the final objective for each review, once the Terms of Reference has been agreed
- highlights where audits contained in the original plan considered by the Audit Committee in March 2017, have changed since September 2017 and why. In summary, audits that have been removed this quarter are:
 - Asset Register
 - Early Help and Family Support: Quality Assurance Tool
 - Special Educational Needs
 - Commissioning Partners' Governance Arrangements
 - Local Authority Trading Company
 - Section 75 Agreement with South Essex Partnership University NHS Foundation for Mental Health Services
 - Highways Contract Management: Use of the Insights System (Symology)

- Debt Management.

3.3 The reasons for this reflect a combination of:

- changes to the:
 - risk profile or status of these activities during this period
 - in-house resource capacity since last reporting to the Audit Committee (see section below on resources).
- the ability of external suppliers to find additional resources in the latter part of the financial year with relatively short notice
- initially under-estimating the amount of time required this year to re-establish and or refresh the arrangements for managing the combined team and update the professional framework.

3.4 There is no contingency budget left so if new risks emerge during the remainder of the year, jobs will be deleted / postponed to accommodate the work.

4. Audit Opinions and Themes

4.1 **Appendices 2a to 2d** summarise the results of the audit work completed since 1 April 2017.

5. Performance Targets

5.1 As at 5th January 2018:

- the in-house team has had 3.5 days of sickness absence since April 2017 (which impacts on productivity) which equates to 0.72 days per FTE
- in terms of the 63 jobs in the plan:
 - 30 audits have been completed
 - 7 audit reports are being discussed with clients
 - two reports are with the Head of Internal Audit for review
 - fieldwork has been completed and or draft reports are being produced for five audits
 - eight audits are in progress
 - terms of reference are being or have been produced for eleven audits.

5.2 A programme of stakeholder surveys has been produced and these will be undertaken throughout the remainder of the year as audits are completed. Some staff were also surveyed as part of the external quality assessment undertaken by the Institute of Internal Auditors.

6. Resourcing

6.1 Since the last report to the Audit Committee in September 2017:

- an Audit Manager joined the team in July 2017 and will be leaving at the end of January 2018
- a senior auditor appointment has been made and he will be joining the team in February 2018.

- 6.2 That leaves the combined team with five vacancies out of nine posts (not counting the Head of Internal Audit). The intention is to fill the auditor level posts with graduates or staff in due course, who will be put through a relevant training programme.
- 6.3 Southend and Castle Point Borough Council's are in the process of finalising a refreshed Collaborative Working Agreement covering the Head of Internal Audit post as well as shared Internal Audit and Business Support services. This will initially operate for three years ending 30 September 2020.

7. Independent Assessment of the Internal Audit Service

- 7.1 As previously reported, the Public Sector Internal Audit Standards (the Standards) require external assessments to be conducted once every five years by a qualified, independent assessor or team, from outside the organisation.
- 7.2 The team's review was completed in October 2017. The full report is attached at **Appendix 3**. It is a very fair assessment of where the in-house team is within the context of the journey it has been on over the last couple of years; and shows that the team:
- has a very good understanding of the Standards it is required to work to
 - is very self aware, in that it continually challenges its operational practices and highlights appropriate opportunities to improve them.
- 7.3 The review was very challenging in a helpful and supportive way and has been a really good learning experience for the staff.
- 7.4 The key messages from the report for the in-house team are that:
- it fully meets most of the Standards, as well as the Definition, Core Principles and the Code of Ethics (described as "Generally Conforms", the highest rating (refer P15))
 - good assessments were achieved in relation to:
 - reflection of the Standards (i.e. *they are fully integrated into the methodology*)
 - focus on performance, risk and adding value (i.e. *there are clear links between IA engagement objectives to risks and critical success factors with some acknowledgement of the value added dimension*)
 - quality assurance and improvement programme (i.e. *quality is regarded highly, includes lessons learnt, scorecard measures and customer feedback with results shared with the Audit Committee*).
 - needs improvement assessments were given in relation to:
 - coordinating and maximising assurance
 - the efficiency of its operations.
- (Refer the Internal Audit Maturity Matrix: Internal Audit Services Effectiveness Highlighted, Page 13).*
- 7.5 The '*coordinating and maximising assurance*' assessment reflects the level of maturity of both the Council and internal audit in being able to both identify and then place reliance on other potential assurance providers. These can be internal, which would include governance teams and review functions (e.g. covering health and safety or risk management) and external, which would include independent assessments / inspections.

- 7.6 Internal Audit's audit risk assessment approach does include identifying such sources and the need to evaluate their effectiveness / reliability. This will be developed further as part of the audit planning process for 2017/18.
- 7.7 The '*efficiency of its operations*' assessment reflects:
- the team's wish to refresh aspects of the Audit Approach, having used it for a few years now as reported to the June 2017 Audit Committee
 - mainly, the issues with timeliness of reporting which have arisen due to reduced management capacity over the last few years, which have been discussed at the Audit Committee.
- 7.8 One, overarching action plan is being produced that includes all outstanding actions including the recommendations arising from this review. The intention is to complete this work by the end of March 2018.
- 7.9 Progress made in doing this, will be reported to the Audit Committee until all actions have been implemented.

8. Corporate Implications

8.1 Contribution to Council's Aims and Priorities

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

8.2 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.

8.3 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.

8.4 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.

8.5 Consultation

The audit risk assessment and the Audit Plan are periodically discussed with the Chief Executive, Deputy Chief Executives and Directors before being reported to Corporate Management Team and the Audit Committee.

All terms of reference and draft reports are discussed with the relevant Deputy Chief Executives and Directors before being finalised.

8.6 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.

8.7 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:

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

8.8 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.

8.9 Community Safety Implications and Environmental Impact

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

9. 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
- Audit Files

10. Appendices

Appendix 1 Internal Audit Plan 2017/18

Appendix 2 Assurance and Themes

- a • Satisfactory Assurance
- b • Audits Revisited
- c • Grants Claims
- d • Schools Audit Opinions and Themes

Appendix 3 Independent Assessment of the Internal Audit Service – IIA EQA Final Report October 2017

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Appendix 1: Internal Audit Plan 2017/18

Dept	Council activity and focus of audit work	Fraud risk	Status as at 5th January 2018 <i>(changes in bold)</i>
Managing the Business			
Aim: Excellent			
CE	<p>Asset Register</p> <p>To assess the arrangements for ensuring there are accurate and complete records for managing the Council's assets.</p>	Yes	Deleted as external audit provides some cover of this annually.
All	<p>Corporate Complaints Stage 1 and 2</p> <p>To assess whether Stage 1 and 2 complaints are effectively managed in line with a clear policy framework.</p>	No	Draft report produced.
PL / PE	<p>Departmental Project Governance Arrangements</p> <p>To assess how robust the Department of Place internal management assurance arrangements are for effectively monitoring the progress and successful delivery of its projects.</p>	No	Draft report being discussed with client.
CE	<p>Emergency Planning</p> <p>To assess whether Southend-on-Sea Borough Council has robust arrangements in place for responding to a civil emergency, in line the requirements of the Civil Contingencies Act 2004 and other relevant good practice / updates.</p>	No	Draft report being produced.
CE	<p>Information Governance, General Data Protection Regulation</p> <p>To assess how well the Council is progressing with its preparations for implementing the new requirements of the General Data Protection Regulations, which come into force in May 2018.</p>	No	Terms of Reference agreed. Planned to start mid January 2018.
PL	<p>IT Risk Assessment</p> <p>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.</p>	No	Work in progress.
All	<p>Risk Management</p> <p>To work with the Council to embed risk management into its day to day operations.</p>	No	Corporate Management Team session held 6th December 2017. No further work is proposed at present.

Appendix 1: Internal Audit Plan 2017/18

Dept	Council activity and focus of audit work	Fraud risk	Status as at 5th January 2018 <i>(changes in bold)</i>
Implementing Action Plans			
CE	<ul style="list-style-type: none"> Business Continuity 	No	Draft report being produced.
Managing Service Delivery Risks			
Aim: Safe			
PE	<p>Management Response to Quality Assurance Audits</p> <p>To assess whether senior management's revised arrangements for ensuring prompt action is taken to address the improvements required where a children's social care file is assessed as 'inadequate' or 'inadequate critical', are operating effectively to minimise the risk to Children.</p>	No	Work in progress.
PE	<p>Child Residential Placements</p> <p>To assess whether the panels established to oversee and challenge proposed child residential care placements, are operating effectively and making appropriate placement decisions.</p>	Yes	Work in progress.
PL	<p>Community Safety Partnership</p> <p>To assess whether:</p> <ul style="list-style-type: none"> the Council receives adequate assurance from the Community Safety Partnership that it is meeting its obligations in achieving community safety outcomes for local residents resources attributed by the Council to the work of the Community Safety Partnership are being used effectively to achieve the Council's priorities and that these contribute to the overall community safety priorities for Southend. 	No	Draft report produced.
PE	<p>Drug and Alcohol: Contract Management</p> <p>To assess whether contracts are being effectively managed.</p>	Yes	This work has been deleted as the service is in the process of re-letting these contracts.

Appendix 1: Internal Audit Plan 2017/18

Dept	Council activity and focus of audit work	Fraud risk	Status as at 5th January 2018 <i>(changes in bold)</i>
PE	<p>Early Help and Family Support: Quality Assurance Tool</p> <p>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.</p>	Yes	This work is being postponed until 2018/19 when audit resources will be available.
PE	<p>Learning Services, Education Related Performance Indicators</p> <p>To assess whether performance indicators (PIs), for a sample of education-related activities, are:</p> <ul style="list-style-type: none"> • designed to provide appropriate evidence that service objectives are being delivered • properly produced and used effectively. 	Yes	Draft report with Head of Internal Audit to review.
PE	<p>Ofsted Improvement Plan</p> <p>To assess whether the Council has established appropriate arrangements to address a selection of the recommendations raised in the July 2016 Ofsted report and confirm these are now embedded into the day to day working practices.</p>	No	Draft report being produced.
PE / PL	<p>Social Care IT Case Management System, Project Implementation (Liquid Logic)</p> <p>To provide a framework to enable an assessment to be made of the readiness of the new Social Care IT Case Management System for Children's and Adults services to 'Go Live'.</p> <p>To independently challenge and report on the Project Team's assessment against the success criteria within the framework, prior to any decision being made by the Project Board to 'Go Live'.</p>	No	<p>Children's Services 'Go Live' Lessons Learned Draft Report being discussed with clients.</p> <p>Adults Services 'Go Live' approach being developed.</p>
PE	<p>Social Care Payments to Individuals and Providers</p> <p>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.</p>	Yes	Draft report being produced.
PE	<p>Special Education Needs</p> <p>To assess the arrangements for ensuring all Special Educational Need (SEN) Statements are converted to Education Health and Care (EHC) Plans by the 2018 deadline.</p>	Yes	<p>Deleted. In year risk mitigated due to officers' actions.</p> <p>Audit now planned for 2018/19.</p>

Appendix 1: Internal Audit Plan 2017/18

Dept	Council activity and focus of audit work	Fraud risk	Status as at 5th January 2018 <i>(changes in bold)</i>
Implementing Action Plans			
PE	<p>Children's Services Safeguarding Performance Indicators</p> <p>To assess the progress made in improving the robustness of arrangements for producing performance data for nationally reported safeguarding indicators.</p>	No	This work is being postponed until 2018/19 when the new Social Care IT Case Management system is operational.
PE	<ul style="list-style-type: none"> • Financial Monitoring of Direct Payments 	Yes	Report issued January 2018.
PE	<ul style="list-style-type: none"> • Mental Health Direct Payments 	Yes	Report issued October 2017.
PL	<ul style="list-style-type: none"> • Licensing 	Yes	Report issued January 2018.
PE	<ul style="list-style-type: none"> • Social Care IT Case Management System Contract Procurement 	Yes	Report issued January 2018.
Aim: Clean			
PL	<p>Recycling, Waste and Street Cleansing Services Contract Management</p> <p>To assess whether the Recycling, Waste and Street Cleansing Services contract is being effectively managed.</p>	Yes	Planned for February / March 2018.
PL	<p>Southend Energy Partnership (OVO)</p> <p>To assess the adequacy of the arrangements for monitoring delivery of the expected benefits for both the Council and local residents from the partnership arrangements entered into with Ovo Energy Limited to create the Southend Energy brand.</p>	Yes	Report issued January 2018.
Aim: Healthy			
PE	<p>Adult Care Transformation Project Risk Assessment</p> <p>To map and assess the risks relating to and assurances in place to ensure the changes being made to service delivery arrangements are effectively implemented.</p>	No	Initial risk assessment produced and will be used to inform the 2018/19 planning process.

Appendix 1: Internal Audit Plan 2017/18

Dept	Council activity and focus of audit work	Fraud risk	Status as at 5th January 2018 <i>(changes in bold)</i>
PE	<p>Commissioning Partners' Governance Arrangements</p> <p>To assess the adequacy of governance arrangements for defining and delivering the intended outcomes for stakeholders from the joint commissioning work undertaken by the Council and the Clinical Commissioning Group.</p>	Yes	<p>Rescheduled for 2018/19.</p> <p>The initial risk assessment (see below) will be further developed whilst producing the terms of reference for this audit.</p>
PE	<p>Integrated Commissioning Risk Assessment</p> <p>To map and assess the risks relating to and assurances in place to ensure the manner in which this operates effectively and tangibly contributes to the delivery of corporate objectives.</p>	No	<p>Initial risk assessment produced and will be used to inform the 2018/19 planning process.</p>
PE	<p>Local Authority Trading Company (LATC)</p> <p>To evaluate the Council's arrangements for monitoring the delivery of service delivery targets set out in the Block Contract with the LATC.</p>	No	<p>This work is being postponed until 2018/19 when audit resources will be available.</p>
PE	<p>Section 75 Agreement with South Essex Partnership University NHS Foundation (SEPT) for Mental Health Services</p> <p>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.</p>	Yes	<p>This work is being postponed until 2018/19 when audit resources will be available.</p>
Implementing Action Plans			
PE	<ul style="list-style-type: none"> • Family Mosaic Contract Management 	Yes	<p>Deleted as this service area has now been restructured.</p>
PL	<ul style="list-style-type: none"> • The Forum Governance Arrangements 	Yes	<p>Deleted. The current status of the report has been discussed with the Deputy Chief Executive (Place).</p> <p>No further audit action will be taken.</p>

Appendix 1: Internal Audit Plan 2017/18

Dept	Council activity and focus of audit work	Fraud risk	Status as at 5th January 2018 <i>(changes in bold)</i>
Aim: Prosperous			
PL	<p>Airport Business Park Project Assurance</p> <p>To provide support and independent challenge to management in the development of benefits management controls, designed to help ensure the project can demonstrate achievement of its expected benefits,</p>	Yes	Work in progress.
PE	<p>Better Queensway</p> <p>To assess whether effective project processes have been established for delivering the Better Queensway Project within the intended timeframes, so it achieves the expected benefits.</p>	Yes	Report issued January 2018.
PL	<p>Car Park Management Contract (Lot 1) Contract Management</p> <p>To assess whether there are robust arrangements in place to ensure that the car park compliance (Lot 1) contract is delivering the planned outcomes and / or benefits in compliance with the specified performance and quality standards, at the correct cost / price.</p>	Yes	Terms of reference being agreed.
PL	<p>Car Park Management Contract (Lot 2) Contract Management</p> <p>To assess whether the Car Park Management arrangements (cash collection) as part of the Parking Management contract are being effectively managed.</p>	Yes	Terms of reference being agreed.
PE	<p>Corporate Procurement Team, Procure to Pay (P2P)</p> <p>To assess the effectiveness of the arrangements for monitoring non- contract Procure to Pay (P2P) spend, focusing particularly on those areas that do not comply with the order, goods receipt and invoice process.</p>	No	Current status report issued to management August 2017.
PL	<p>Highways Contract Management</p> <p>To assess whether the highways block of contracts are being effectively managed.</p>	Yes	Planned for February / March 2018.
PL	<p>Highways Contract Management: Use of the Insights System (Symology)</p> <p>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.</p>	Yes	This work is being postponed until 2018/19 when audit resources will be available.

Appendix 1: Internal Audit Plan 2017/18

Dept	Council activity and focus of audit work	Fraud risk	Status as at 5th January 2018 <i>(changes in bold)</i>
CE	<p>Leases and Licences</p> <p>To assess whether the Council effectively manages its leases and licences as well as receiving all income due from them.</p>	Yes	Draft report with Head of Internal Audit to review.
Implementing Action Plans			
PL	<ul style="list-style-type: none"> • Airport Business Park Project Assurance 		Report issued January 2018.
PE	<ul style="list-style-type: none"> • Corporate Procurement Team, Procure to Pay (P2P) 	Yes	Work in progress.
PE	<ul style="list-style-type: none"> • Housing Allocations 	Yes	Report issued January 2018.
PE	<ul style="list-style-type: none"> • “P” Cards 	Yes	Work in progress.
CE	<ul style="list-style-type: none"> • Right to Buy 	Yes	Report issued December 2017
Aim: Excellent			
CE	<p>Debt Management</p> <p>To assess whether the new corporate Debt Management strategy is being properly and consistently applied.</p>	Yes	This work is being postponed until 2018/19 when the new Debt Management Strategy (to be presented to Cabinet in November 2017) has been embedded.
CE	<p>Housing Benefit: Risk Assessment of New Claims</p> <p>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.</p>	Yes	The need for this work is being reassessed as a result of the roll out of Universal Credit for all new claims.
PE	<p>Pre-payment Cards: Letting of Contract</p> <p>To assess whether effective arrangements are being developed to manage the issue of as well as approve and monitor expenditure on, pre-payment cards given to clients:</p> <ul style="list-style-type: none"> • in receipt of direct payments • where the Council acts as the official receiver for Court Protection purposes. 	Yes	<p>Draft Terms of Reference with Head of Internal Audit to review.</p> <p>Some initial critical friend work has commenced.</p>

Appendix 1: Internal Audit Plan 2017/18

Dept	Council activity and focus of audit work	Fraud risk	Status as at 5th January 2018 <i>(changes in bold)</i>
Implementing Action Plans			
PE	<ul style="list-style-type: none"> Section 75 Partnership Agreement, Integrated Equipment Service 	Yes	Report Issued October 2017.
PL	<ul style="list-style-type: none"> Works Contract Letting, St Helen's Roman Catholic School 	Yes	Report issued January 2018.
Aim: All			
CE	<p>Apprenticeship Levy</p> <p>To assess the Council's arrangements for using the levy to develop an effective apprenticeship scheme.</p>	Yes	Postponed until 2018/19 when the Council's scheme will be developed.
PL	<p>IT Change Management</p> <p>To assess the adequacy and effectiveness of the Council's formal processes that ensure any changes to the IT environment (e.g. through applications or infrastructure) are introduced in a controlled and coordinated manner to minimise the risk of disruption to Council services.</p>	No	Draft report being discussed with client.
PL	<p>Agresso System Access Controls</p> <p>To assess whether there are adequate arrangements in place for ensuring that at any point in time, individual staff members' access to the functions within the Agresso system is in accordance with the needs of their job role.</p>	Yes	Draft report being produced.
CE	<p>Payroll, Self-Serve Mode</p> <p>To assess whether the new arrangements for processing and approving expense, mileage and overtime allowance claims are working effectively.</p>	Yes	Terms of reference agreed. Fieldwork planned for February / March 2018.
PL	<p>Smart City Project</p> <p>To:</p> <ul style="list-style-type: none"> establish the remit and content of the SMART City Project determine Internal Audit's approach to providing appropriate assurance over the lifecycle of the project. 	Yes	Initial risk assessment produced and will be used to inform the 2018/19 planning process.
Implementing Action Plans			
PL	<ul style="list-style-type: none"> IT Infrastructure and Asset Management 	No	Planned for March 2018.

Appendix 1: Internal Audit Plan 2017/18

Dept	Council activity and focus of audit work	Fraud risk	Status as at 5th January 2018 <i>(changes in bold)</i>
CE	<ul style="list-style-type: none"> Welfare Reform 	No	Report issued December 2017.
Key Financial Systems			
Aim: All Aims			
CE	<p>Financial systems work to support the production of the Council's Financial Statements</p> <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. 	Yes	Planned for February 2018.
CE	<p>Payroll Revisited</p> <p>To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.</p>	Yes	Report issued November 2017.
CE	<p>Other Key Financial Systems</p> <p>Approach to this work is still to be confirmed.</p> <p>To use computer-assisted audit techniques (CAATs) to automate audit testing and allow for a deeper analysis of large data sets.</p>	Yes	Risk assessments produced and will be used to inform the 2018/19 planning process.
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"> BEST Growth Hub 	Yes	It has been agreed with Essex County Council that this work is no longer required.
PL	<ul style="list-style-type: none"> Coastal Communities Fund 	Yes	Deleted as the Council did not receive any grant funds in 2016/17.
PE	<ul style="list-style-type: none"> Disabled Facilities Capital Grant Determination 	Yes	Completed.

Appendix 1: Internal Audit Plan 2017/18

Dept	Council activity and focus of audit work	Fraud risk	Status as at 5th January 2018 <i>(changes in bold)</i>
PL	<ul style="list-style-type: none"> Highways Maintenance Challenge Fund 	Yes	Completed.
PL	<ul style="list-style-type: none"> Local Transport Capital Block Funding 	Yes	Completed.
PL	<ul style="list-style-type: none"> Local Growth Fund 	Yes	Completed.
PL	<ul style="list-style-type: none"> Pothole Action Fund 	Yes	Completed.
CE	<ul style="list-style-type: none"> Mentoring Fund 	No	Completed.
PE	<p>Troubled Families Programme, Payments by Results Scheme Grant</p> <p>To challenge Troubled Families Payment By Result (PBR) Grant returns are in line with the Department for Communities and Local Government requirements.</p>		Reported on May, July, Sept and Oct 2017 submissions.
Advice and Support			
To provide independent review, support and challenge to assist with the delivery of the groups' objectives and work programme.			
	<p>Attendance at Groups</p> <p>To provide supportive, critical challenge as required</p>		
	<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.
PE	<p>Early Years Funding – Nursery Settings in Schools</p> <p>To assess the effectiveness of the arrangements currently in place and being developed within the funded childcare provision to ensure:</p> <ul style="list-style-type: none"> the accuracy of the funding being approved by the Group Manager, Early Years providers are fulfilling their duties in line with the provider agreements. 	Yes	Work in progress. Specific work will be completed when the January 2018 census is completed.
PL	<p>The Hive Business Incubation Centre</p> <p>To assess the robustness of arrangements for setting up and monitoring the delivery of the City Deal outputs detailed in the Service Level Agreement with the provider (Enterprise 4 Good) in relation to “The Hive” Business Incubation Centre.</p>	Yes	Internal management report being finalised with client.

Appendix 1: Internal Audit Plan 2017/18

Dept	Council activity and focus of audit work	Fraud risk	Status as at 5th January 2018 <i>(changes in bold)</i>
All	<p>Potential Corporate Project Governance Approach</p> <p>To assess whether the Property, Regeneration and Strategic Projects team capital projects, project management approach (the PR&SPT's project management approach) could be effectively utilised as the corporate standard when managing a project.</p>	No	<p>Draft report being discussed with client.</p>
PL	<p>Rechargeable Works</p> <p>To assess whether the processes for collecting income for accidental damage to the highway have been effectively embedded into day to day working.</p>	Yes	<p>The need for this work is being reassessed due to delays in implementing a new system and a change in the risk profile.</p> <p>Ad hoc advice is being provided on the new processes being developed.</p>
CE	<p>RIPA</p> <p>To work with the Counter Fraud & Investigation Directorate to provide the Director of Legal & Democratic Services with support to set up a process for auditing the use of social media sites and the internet for investigative or official business, across all departments, in line with the requirements of the Council's RIPA Policy.</p>	No	<p>Initial discussion held.</p>
PL	<p>Safety of Gas Boilers in the Council Estate</p> <p>To assess whether robust processes have and are being followed by Southend on Sea Borough Council (the Council) when examining issues raised by a complainant regarding potential non-compliance with Gas Safety (Installation and Use) Regulations.</p>	Yes	<p>Work completed and feedback provided.</p>
PL	<p>Safety of Gas Boilers in the Council Estate Action Planning</p> <p>To provide support and challenge to the department to ensure a robust action plan is developed to improve the process for managing the Councils gas contract.</p>	Yes	<p>Work completed. Support and challenge provided whilst action plan was being developed.</p>

Appendix 1: Internal Audit Plan 2017/18

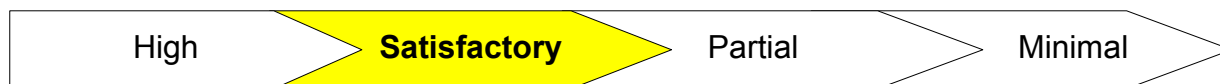
Dept	Council activity and focus of audit work	Fraud risk	Status as at 5th January 2018 <i>(changes in bold)</i>
Schools Audit Programme			
Aim: Prosperous			
PE	<p>Schools Audit Programme</p> <p>To assess whether individual schools have adequate and effective governance, information and asset management as well as financial management and reporting arrangements in place.</p>		
	<ul style="list-style-type: none"> Earls Hall Primary School 	Yes	Report issued November 2017.
	<ul style="list-style-type: none"> Leigh North Street Primary School 	Yes	Report issued December 2017.
Other Clients			
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. Approach to this is being considered in the context of the 'Alternative Delivery Models' report to the November 2017 Cabinet.</p>
Managing Delivery of the Audit Plan			
	Audit Planning, Resourcing		
	Managing Contractor Work		
	Reporting to Management Team and Audit Committee		
	Contingency		
	Preparing for statutory, independent external assessment against UK Public Sector Internal Audit Standards		

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.

Appendix 2a: Assurance and Themes

Assurance



Southend Energy Partnership (OVO)

Objective

To assess the adequacy of the arrangements for monitoring delivery of the expected benefits for both the Council and local residents from the partnership arrangements entered into with OVO Energy Limited to create the Southend Energy brand.

Themes

Business case for partnership arrangement

A report was issued to Cabinet in January 2015 to “seek approval to create a Southend Energy company to provide a direct offer to residents and businesses within the Borough”. This provided comprehensive information to support the proposal. It also set out how this arrangement contributed to delivering the Council's Vision and Corporate Priorities.

A procurement market options appraisal was produced, and advice sought from the Corporate Procurement team to confirm that a tender competition exercise was not required.

Roles and Responsibilities

The Energy and Sustainability Manager's role purpose and responsibilities are set out in the job description, which needs to be amended to include OVO contract management responsibilities.

Contract governance has recently been transferred to a newly created Energy Opportunities Board, whose accountabilities still need to be formally documented. Its role includes providing updates to corporate management on delivery of the Low Carbon Energy and Sustainability Strategy.

Performance monitoring and resident satisfaction

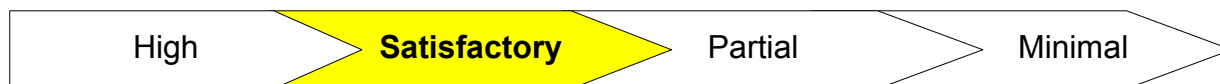
OVO, as required under the partnership agreement, provide quarterly management information packs to the Council that highlights performance against the relevant agreed targets which are discussed at quarterly meetings. The packs show that OVO have been exceeding their KPI targets. Going forward, the Council needs to review OVO's data reporting systems and processes to gain assurance that KPI figures are being generated and reported accurately.

Both OVO and Southend Energy complaint levels are monitored against industry averages and have been consistently below these as reported in the packs.

OVO is required to produce an annual report in March however; the annual meeting as well as consideration of this have not yet occurred for 2017.

Appendix 2a: Assurance and Themes

Assurance



The original Cabinet report contained a risk assessment covering key areas such as marketing, reputation, procurement, breach of contract, business competition and bad debt. These risks now need to be formally documented in a risk register, regularly reviewed and refreshed. It should then be presented to the Energy Opportunities Board as part of the normal performance management process.

Delivery of benefits to residents

The key intended benefit to residents of the partnership arrangement is savings on energy prices through switching to another supplier, including Southend Energy. The Energy team periodically perform an analysis of the energy market to assess where Southend Energy are priced in comparison to all other providers. This is good practice, as it helps to evidence that Southend Energy are at least amongst the cheapest suppliers. This should be performed on a systematic basis as part of an annual contract review.

Council income

As agreed under the partnership arrangement, the Council receives a fixed referral fee from OVO for each new Southend Energy customer. The Council raises invoices from information received from OVO. Due to historic VAT issues, the invoicing cycle had been ad hoc. The Council is now up to date with the billing and has a quarterly invoicing process in place.

It was identified that prior month figures provided by OVO had been retrospectively adjusted resulting in the Council potentially under billing OVO by £4,472.50. The reason for this is being investigated and any monies due have been recovered. A reconciliation process is also being established so that any such amendments will be identified in future.

Number of actions agreed: 7

Better Queensway Project Assurance

Objective

To assess whether:

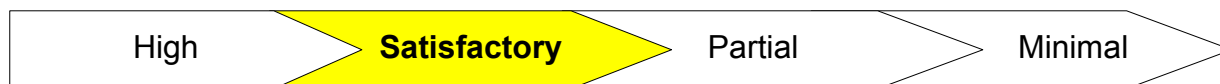
- effective project processes have been established for delivering the Better Queensway Project within the intended timeframes, so it achieves the expected benefits
- the actions agreed in the original audit report dated February 2017 have been implemented and are now effectively embedded into the day-to-day project management approach.

Themes

Overall, the arrangements introduced to manage the Better Queensway project are now sound.

Appendix 2a: Assurance and Themes

Assurance



The governance, reporting lines, escalation paths and delegated authorities for decision making for the project:

- have been formalised
- are clearly documented for each level of the project hierarchy.

It includes boards at various levels including a Sponsoring Group with a subset of Council Members, who have delegated authority for key project decisions. They are all supported by detailed terms of references, minutes, a clear audit trail of actions required with responsible owners assigned; and progress made in delivering actions is followed up at subsequent meetings.

The role, remit and responsibilities of individuals working on the project have been clarified, documented and communicated.

The project:

- has introduced highlight reporting throughout the governance hierarchy, covering key project control areas such as time, cost, scope changes, risks and issues
- presents monthly highlight reports to Corporate Management Team (CMT).

Whilst highlight reports include a high-level rag status update on project costs, further work is required to;

- produce a detailed budget, which sets out the planned costs required to deliver the project over time
- develop a process to monitor this against actual spend throughout the project.

Project reporting includes escalated key risks. A risk workshop is planned to ensure the project fully understands the current risks, has plans in place to mitigate them and that this is documented in the risk register, which will be periodically refreshed.

A project plan has been developed for the current phase of the project, which captures the required information and outlines the critical path of activity. This would be strengthened by including the resources required to deliver all of the required tasks.

Planned project objectives and benefits have been defined at a high level. Since the previous audit, a Benefits Management Strategy has been developed. However, detailed benefit profiles or plans still need to be developed to enable the realisation of intended benefits to be demonstrated and project investment decisions to be justified. This will be developed following the completion of similar work on the Airport Business Park project, planned for January 2018.

A robust approach remains in place for the identification, analysis and engagement of key project stakeholders.

Good progress had been made in addressing the agreed actions from the previous report.

Number of actions agreed: 5

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Appendix 2b: 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.

Financial Monitoring of Direct Payments



Original Objective

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

Results

Fully implemented	Substantially implemented	Partially implemented	Not implemented
1	0	5	1

Summary

Policy and Processes

The 'Self Directed Support Best Practice Guidance' has been replaced by a new Direct Payments Policy (the Policy), which is comprehensive and outlines the:

- Council's obligations under the Care Act 2014 and the Care and Support (Direct Payment) Regulations 2014
- the processes that the Council should follow when reviewing how a client has spent their direct payment i.e. in line with their care plan and the terms and conditions of their agreement
- checks to be completed within the process by Finance Officers, Social Workers and senior officers or management, as set out in detailed appendices.

The Policy and its appendices were developed collaboratively across teams within the directorate, and signed off by Adults Departmental Management Team (DMT) in December 2017.

Action is now being taken to implement the processes of:

- undertaking financial monitoring of direct payments
- independently reviewing work completed by Finance Officers.

Further work is needed to review and update the process for monitoring children's direct payments, with a view to aligning it with the arrangements adopted by Adult Services.

Appendix 2b: Audits Revisited

Direct Payment Agreement

The Terms and Conditions within the Direct Payment Agreement have been extended and now:

- outline specifically what direct payment monies can't be used for e.g. food or travel costs unless specified in the care plan
- require sign-off from the service user to say that they:
 - have contacted Vibrance for advice and support
 - understand their legal responsibilities associated with becoming an employer.

The updated Direct Payment Agreement was approved by Adults DMT in December 2017 and is now being implemented.

Guidance outlining the responsibilities of Finance Officers when processing one-off direct payments is required, to ensure signed agreements have been received prior to payments being made.

Declaration of Interest

As a result of audit field work undertaken in October 2017:

- Finance, Social Care and Court of Protection staff refreshed their declarations of interest statements
- staff's access to records on Civica in all cases where interests had been declared had been limited.

Going forward, staff will be asked to sign a positive declaration that says they have declared all relevant interests, as part of the appraisal process. This should remind staff to update their statements, if their circumstances have changed. Management should then periodically check to confirm that staff's system access is appropriate based on the interests declared.

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.

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 2b: Audits Revisited

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 2016/17, spend of £496,628 was processed through this system.

Results

Fully implemented	Substantially implemented	Partially implemented	Not implemented
9	2	1	2

Summary

Good progress has been made to address the actions contained in the follow up report issued in February 2017 and therefore, strengthen the arrangements for dealing with Mental Health Direct Payments effectively.

As a result:

- the Panel's Terms of Reference has now been appropriately updated and includes sample signatures and job titles of those staff authorised to independently validate care assessments. Responsibility for maintaining this list has been allocated to the Consultant Social Worker
- Finance Officers are checking the correct authorisation is being evidenced by confirming Decision Panel Sheet contains two signatures from both Essex Partnership University Trust and the Panel
- the Decision Panel Sheet provides clarity as to what bespoke parts of the packages has been authorised and / or rejected by the Panel
- the arrangements for processing care packages within the Finance team on CareFirst have been formalised through procedure notes
- a senior independent officer is now spot checking a sample of new and amended care packages on Care First each month, to confirm the accuracy of input into the system
- all open and continuing care packages approved since April 2015 have been reviewed, and where they did not contain appropriate Panel authorisation, they have been investigated to confirm their validity
- contract variations have been agreed with Vibrance covering the arrangements for:
 - the consistent and timely issue of six monthly financial statements to all clients, and follow up of issues arising from this
 - reporting on and clawing back surplus funds on client direct payments accounts

Appendix 2b: Audits Revisited

- vetting and approving new service providers before they are added to the list given to clients receiving a direct payment.
- performance monitoring of Vibrance has been consistent, with meetings being held every six months to discuss KPIs and the company's responsibilities under the new contract variations.

Processes are being implemented by the Finance team to ensure Vibrance reports on clients' financial position are reviewed on a timely manner. Procedure notes supporting this process have been produced but not implemented.

Reports are being produced to highlight where an officer has both entered and authorised a care package on CareFirst. Going forward, these needs to be produced and checked by an officer who is not routinely doing either of these tasks.

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
2	0	0	1

Summary

Good progress has been made in addressing most of the outstanding issues raised in both the original and subsequent follow up reports. As a result:

- appropriate procedures are in place to ensure all Licensing policies are reviewed in a timely manner and include clear version history controls
- there is now a proactive approach to recovering parked debt, which is fully embedded in to day-to-day operations of the Licensing team.

There is however, significant work still required to reconcile the licenses issued on the Licensing IT system (Uniform) to the monies received on the Council's general ledger IT system (Agresso). Financial Services has been providing daily cash reports since March 2017. However, these are not fit for purpose and do not enable the Licensing team to carry out the reconciliations. The Licensing team has not raised this as an issue and Financial Services has not checked to see whether the reconciliations have been completed.

The two services have agreed to work together going forward to identify / create reports, which will enable this reconciliation to take place on a regular basis.

Appendix 2b: Audits Revisited

Social Care IT Case Management System Contract Procurement



Original Objective

To assess whether the:

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

Results

Fully implemented	Substantially implemented	Partially implemented	Not implemented
3	1	0	1

Summary

Good progress has been made in updating the Procurement Toolkit to address opportunities to strengthen the process identified when reviewing this contract. As a result:

- the evaluation criteria questions section of the Options Appraisal Authorisation Form regarding a) Supplier Questionnaire and b) ITT Criteria, has been updated
- the Contract Management Framework has been amended to require:
 - contract management arrangements to be specified and agreed in the contractual documentation as well as with the supplier and stakeholders, prior to the contract being executed
 - details of significant differences with the agreed specification / options appraisal and / or significant risks, to be explicitly stated and highlighted to stakeholders prior to authority being given to award the contract.
- the Procurement Toolkit workflow has been updated to require:
 - variations to be recorded with evidence of approval from stakeholders
 - moderation panel scores and evidence of their agreement to be retained.
- further staff training has been provided on contract management principles and the setting of SMART targets.

Further amendment to the Procurement Toolkit is required to provide guidance on:

- contracts where the Council is lead authority but the services will be utilised by other local authorities
- the need to save all documentation in respect of procurement contracts on the eProcurement system.

Appendix 2b: Audits Revisited

The P2P Reporting and Compliance Manager now checks to confirm that all relevant documents are present before the contracts are added to the Corporate Contract Register.

Contractual terms

The contract document itself allowed price increases to option modules beyond Retail Price Index (RPI) indexation to any value after 24 months. This was not in accordance with the future proofing requirements stated in the Options Appraisal Authorisation Form.

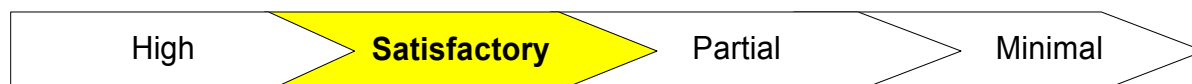
The service credit contract performance monitoring mechanism categorises the severity of an incident based on whether it has affected a 'small' or 'large' number of users, but does not specify a percentage or numerical number of users. This contract performance mechanism is too vague, as is how the severity of ICT incidents would be measured.

At the time the contract was signed (3 March 2016):

- the milestone / implementation plan and associated liquidated and ascertained damages / penalties had not been defined
- the service provider still had to provide details of how the Service Level Agreement monitoring process would operate.

As a result of all of the above, it was recommended that the service seeks to re-negotiate the contract in order to address these issues. This recommendation had not been actioned as at November 2017.

Airport Business Park Project Assurance



Original Objective

To assess whether effective project processes have been established for delivering the Airport Business Park Project to ensure it achieves the expected benefits, within the intended timeframes.

Results

Fully implemented	Substantially implemented	Partially implemented	Not implemented
4	1	0	1

Summary

Good progress had been made in addressing the actions agreed in the original report. This process was proactively managed as well as delivered in a timely way, and there is evidence that the revised arrangements are embedded into current working practices.

As a result:

Appendix 2b: Audits Revisited

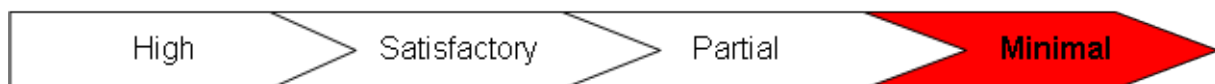
- highlight reporting has been introduced to both the Project Steering Group and Partnership Board, which provides a status update on key project areas such as time, cost, quality, scope changes, risks and issues
- a fully complete dependency log is now in place which contains all the required information and is regularly reviewed to effectively manage project dependencies
- a benefits management strategy has been introduced which provides the mechanism for the project to identify, monitor and manage the planned benefits of the project.

Further work is required to:

- agree which project benefits can now be measured
- develop detailed benefit profiles or plans to enable the realisation of intended benefits to be demonstrated.

This work is planned to take place in January 2018 and forms part of Internal Audit's 'critical friend' support to the project.

Housing Allocations



Original Objective

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

Results

Fully implemented	Substantially implemented	Partially implemented	Not implemented
0	0	1	6

Summary

Minimal progress has been made with implementing the agreed actions in the original report, issued in December 2016. There is also evidence that the Council's performance management process for monitoring that agreed actions are being progressed, has not operated properly.

In certain circumstances the Council may allocate properties directly to applicants. South Essex Homes processes these under its 'Management Move' process. The Housing Solutions team processes all other direct lets in the manner required by the Council's Allocations Policy (the Policy) and they require authorisation by the Senior Housing Solutions Officer prior to commencement.

During this audit, it was identified that three direct lets were processed that did not comply with either of these arrangements. This previously unseen scenario has highlighted the need for better oversight of the direct let process. In order to prevent a recurrence of this scenario, there is a need to:

Appendix 2b: Audits Revisited

- review and restrict system permissions on Abitras to ensure a single member of staff cannot set both applicants and properties to direct let status
- regularly review all direct lets to ensure they are appropriate, and suitable authorisation has been retained.

Following a conversion with Internal Audit in July 2017, a Senior Housing Officer now undertakes a weekly reconciliation of properties let against those advertised. Where properties had been identified as not being advertised at the time of the letting, there was a need to:

- retrospectively advertise as a direct let, in line with the Policy
- if not appropriate to advertise, clearly record the reason for this in the Abitras system to demonstrate it complies with the exceptions outlined in the Policy.

In response to concerns of senior management over various aspects of Housing Services activities, an independent review of the service has been commissioned to provide support for the changes that need to take place.

Revised timescales have been agreed with the interim Group Manager for Housing and the Director of Adult Services and Housing, for completing the outstanding management actions, which include:

- develop a set of procedure notes to support the delivery of the Policy
- undertake a project to establish whether the Abitras system has the functionality required to support the manner in which the service should operate
- establish how to use the Abitras system to monitor delivery of key elements of the Policy, within the expected timescales
- establish a quality assurance process for independently reviewing a sample of applications
- create a process to ensure that direct lets are undertaken in line with the Council's Allocations Policy
- formalise the expectations of the work South Essex Homes do in respect of the allocations process, using clause 67 of the Management Agreement.

Right to Buy



Original Objective

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

Results

Fully implemented	Substantially implemented	Partially implemented	Not implemented
1	3	0	0

Appendix 2b: Audits Revisited

Summary

Good progress has been made to address the actions contained in the original report and therefore, strengthen the arrangements for dealing effectively with Right to Buy cases. Legal Services is to be commended for really engaging with this audit and using its results to continue to challenge and improve working practices.

As a result:

- the checklist (used as a procedure note) has been developed, so it is now well designed and adequately outlines the actions to be taken during each case, by the Legal Assistant, to properly process a Right to Buy application
- there are now clear directions regarding referring cash purchases to the Counter Fraud and Investigations Directorate (CFID) for the financial checks to be completed in line with those undertaken by financial services, including lenders
- the standard letter has been updated which requires the buyer's legal representative to provide:
 - full details of the bank account that will be used to send the funds to the Council on completion
 - information on how the purchase will be funded i.e. cash or mortgage

The Director of Legal and Democratic Services has decided to check all files until there is evidence that the process is being applied properly and consistently, at which time the service will return to spot checking files.

S75 Partnership Agreement Integrated Equipment Service



Original Objective

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

Results

Fully implemented	Substantially implemented	Partially implemented	Not implemented
1	2	6	0

Summary

Overall, good progress is being made in revising the draft Section 75 Partnership Agreement (the Draft Agreement) between Southend-on-Sea Borough Council (the Council) and Southend Clinical Commissioning Group (the CCG); despite some delays in obtain key information, due to conflicting priorities in some teams in both organisations.

Appendix 2b: Audits Revisited

The Draft Agreement has been updated and now includes sufficient information about:

- the partners involved with the Equipment Service, including the correct working practices, name and job roles of the partners
- the governance arrangements underpinning it, including the establishment of the new Joint Operational Equipment Service Partnership Board (Partnership Board)
- Key Performance Indicators (KPIs) against which the performance of the service is to be judged
- the arrangements for future reviews of the Draft Agreement by partners.

Work is still underway to:

- produce a specification that outlines the service provision in detail and the respective responsibilities of both the Council and the CCG
- develop a risk management framework that also clarifies the roles and responsibilities for the on-going review of potential service-disrupting risks
- assign responsibility for:
 - defining what methods will be used to obtain user client feedback regarding the service and the KPIs that will produce
 - developing the processes to obtain and report on the feedback to the Partnership Board.

Once this information is incorporated in the Draft Agreement it will be ready for each partner to review and then approve.

Although most of the requirements for a Partnership Board Terms of Reference are included in the Draft Agreement, a formal Terms of Reference needs to be drafted and agreed.

A Section 75 Partnership Agreement Taskforce has been established which includes representatives from all interested parties, to work on the Draft Agreement and the way forward for the partnership. However, the Partnership Board has yet to be created, and so the implementation of a number of operational service management tasks has also been deferred. While the approval and ratification of the Draft Agreement should be conducted as soon as reasonably possible, this should not be a barrier to convening the Partnership Board and enabling it to discharge its duties. One of which is the scrutiny of quarterly service performance reports.

It is noted that since completion of the audit fieldwork, a Terms of Reference for the Partnership Board has been agreed and a Risk Management Framework and Service Specifications have been drafted.

Funding Arrangements

The Draft Agreement outlines that the Partnership Board should agree an equitable and proportionate funding arrangement based upon activity, demand and financial information. However, no historic activity information, by commissioning party, was available when the 2017/18 budgets were set. So it was agreed that the budget ratio would continue on the same basis as used for 2016/17.

Historic activity figures are now available for 2015/16. These should be used for setting the budget ratios for 2018/19 unless more up to date (2016/17) data is available. These figure are to be produced annually going forward.

Appendix 2b: Audits Revisited

Works Contract Letting, St Helen's Roman Catholic School



Original Objective

To assess whether the:

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

Results

Fully implemented	Substantially implemented	Partially implemented	Not implemented
3	3	0	1

Summary

The original audit of Work Contract Letting, St Helen's Roman Catholic School, raised a number of concerns over the Council's contract tendering process for works contracts. However, good progress had been made to improve this process since this review was completed.

The Procurement Toolkit workflows now set out that all such procurements over £25k are to be referred to the P2P Compliance and Reporting Manager or the Procurement Officer. As a back-up, the gate-keeping function on the Agresso system means that any payments that total >£25k are automatically flagged up to the Corporate Procurement Team for approval before the payment can be made.

The P2P Reporting and Compliance Manager checks to confirm that all documents are present before the contract is added to the Corporate Contract Register. In addition, training in the e-tendering process on the eProcurement system has taken place.

Further work is now required to:

- instruct staff to follow the relevant procurement workflow diagrams
- provide guidance on the retention of approval of project plans
- add AW Hardy to the Corporate Contract Register
- amend the Options Appraisal Authorisation Form to explain:
 - the normalisation process (when a tenderer can correct an already submitted tender)
 - how and when this can be applied and the evidence required to support it.

Appendix 2b: Audits Revisited

Welfare Reform

Original Objective

To assess whether:

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

Results

Fully implemented	Substantially implemented	Partially implemented	Not implemented	Actions closed
0	0	0	0	2

Summary

The 'Action Plan for dealing with the impact of Welfare Reform' (the action plan) was developed in 2014 at the request of a Councillor Gilbert in response to an in depth scrutiny project to examine the impact of the Welfare Reform Act in Southend.

The action plan consists of eight pledges, with previous audit work confirming that pledges one to five had been completed. The last follow up audit in September 2016 identified that the last three pledges (numbers six to eight) were still yet to be implemented.

Discussions with the Benefits Manager, who was assigned overall responsibility for the Action Plan, confirmed that:

- these pledges relate to Public Health
- she had notified the Health Improvement Specialist Practitioner of this.

However, further discussions identified:

- a lack of ownership of the project
- limited communication between Benefits and Public Health with regard to monitoring the progress of the pledges.

As a result:

- pledges had not been assigned to individuals within Public Health
- clear timescales for completion had not been agreed
- pledges were not being measured and / or evaluated to understand whether they were successful in managing the impact of welfare reform
- management has not received updates on the progress of the action plan for over a year.

The Director of Public Health believes the pledges within the action plan require review now that the new welfare reforms have been implemented to determine their impact. It is recommended therefore that:

- the current welfare reform pledges are closed

Appendix 2b: Audits Revisited

- a joint strategic needs assessment chapter is undertaken to establish needs going forward, and how best to support these.

Payroll

Original Objective

To assess whether the key controls in the Payroll system effectively prevent or detect material financial errors, on a timely basis, so that this information can be relied upon when producing the Council Statement of Accounts.

Results

Fully implemented	Substantially implemented	Partially implemented	Not implemented
2	2	4	0

Summary

Current issues

Unfortunately, the Payroll team has encountered difficulties in implementing some of the previously agreed actions. This is due to system constraints with the current version of Agresso (the Payroll IT module). As a result, manual instead of automated checks have needed to be introduced in some areas which are time consuming but currently necessary.

In order to further progress the requirement to reconcile the establishment list and payroll records to ensure they are complete, accurate and timely:

- some joint work is required with the Accountancy team to establish what is needed to enable both functions to use a core data set contained within the payroll module
- additional functionality is required within the IT software.

Agresso is due to be upgraded by February 2018. It is thought this may well present new opportunities to revisit and potentially automate some more checks and balances within the process. In the meantime, new workaround actions have been agreed for R2 and R4.

A separate mini project is being set up with the respective services to explore how best to work towards maintaining and working with one, core establishment list. Going forward, Internal Audit will work with the service in an advice and support capacity, until these issues are resolved.

Themes

The self-service module for expenses and overtime is now operational and enforces an electronic segregation of duties, sending claims to the system designated line manager (or the one-up manager in cases of absence) for approval. However, there is no limit to the authority of the approver, so:

- overtime may be approved outside of the Council's Allowances Policy

Appendix 2b: Audits Revisited

- expenses may be approved outside of the Council's Expenses Policy.

Testing of the adherence of claims to the policies was not covered as it will be part of the Payroll Self Service audit.

The managerial quality checks on the new starter and leavers forms are supported by system-produced reports, which enable the checks and findings to be well documented. It has not been possible to obtain a workable report in respect of the payroll amendment forms so a manual workaround has been introduced. As the testing records have no explanation for the volume selected or details of what has been checked, improvement in the recording of the check is required.

Adequate segregation of duties exists for processing of new starter, leaver and payroll amendment forms. Independent checks of the data input are also being undertaken.

The formula used to calculate the salary variance reports is now correct and identifies all cases where an employee's current month's pay differs by 30% or more from the previous month's pay. All such cases should be subject to review and amendment if appropriate, during the payroll cut-off period.

The salary variance report is rerun at the end of the payroll cut-off period to confirm:

- any amendments have been correctly applied
- no new cases of a 30% or more variance have occurred.

However, inconsistencies have been identified in the formula used to calculate the variance and there is no check to establish if new variances cases had occurred.

There was evidence of good communication between Finance, HR and the Agresso Support teams in respect of establishment position changes during the TUPE transfer of staff to Southend Care Ltd. However, a more formalised approach needs to be established to ensure that this communication continues in future (refer to current issues section above).

Declarations of Interest were completed by HR and Payroll staff in January 2017 and were electronically entered onto the Agresso system. These are followed up as part of employee's appraisals.

The 2017/18 annual uplift of the payroll data on Agresso was well documented and had evidence of checking before going live in March 2017.

Appendix 2c: Grant Claims

Objective

To confirm that grant allocations received have been spent in accordance with the relevant scheme's terms and conditions.

Disabled Facilities Capital Grant Determination (DFG)

Purpose of funding

To support those in non-council properties with required adaptations to their homes based on their medical needs. Types of works undertaken include installations of:

- level access showers
- ramped access to properties
- stair lifts or through-floor lifts.

Conclusion

It was confirmed that spend was compliant in that:

- it fell within the definition of "capital" for accounting purposes
- grant monies had been transferred into the local Better Care Fund pooled budget, under Section 75 of the NHS Act 2006.

In addition, work was undertaken to verify that all cases were supported by:

- an assessment of need and recommendation of adaptation works required, undertaken by an Occupational Therapist
- suitable means testing to ensure eligibility to the DFG scheme, where required
- a signed agreement from surveyors and clients that works had been completed as per the plans, and to a suitable standard.

Opinion: Unqualified

Highways Maintenance Challenge Fund

Purpose of funding

To assist with the borough wide LED street lighting upgrade.

Conclusion

It was confirmed that spend was compliant in that:

- it fell within the definition of "capital" for accounting purposes
- works undertaken related to the replacement of streetlights in the borough.

Opinion: Unqualified

Appendix 2c: Grant Claims

Local Transport Capital Block Fund

Purpose of funding

To assist in delivering transport improvement schemes, which can include:

- road markings and re-surfacing
- upgrades to traffic signal junctions, zebra and puffin crossings
- underground utility detection, topographical, CCTV and HDS surveys in preparation for works contained in the 2017/18 programme
- upgrades to electronic bus information screens
- pothole repairs.

Conclusion

It was confirmed that spend was compliant in that it fell within the definition of "capital" for accounting purposes.

Some issues were identified that did not impact on the ability to sign the grant off, but required attention from the service area.

This included a failure to raise appropriate purchase orders for all transactions. Work is being undertaken to move further elements of the highways contract onto Symology¹. System controls within Symology require work orders to be aligned with a purchase order number prior to the order being issued to contractors. This should minimise this issue going forward.

In addition, evidence that works have been completed, such as records of site visits or photos showing works done, were not always available. The team advised this was due to the responsible engineer leaving the Council and failing to transfer files to the team from his personal drive. Work was undertaken by engineers to re-visit works and verify that they have been completed in line with the invoices paid. Staff have been reminded of the need to keep all records on the shared drive.

Opinion: Unqualified

Local Growth Fund

Purpose of funding

Three streams of funding were received in 2016/17 which covered:

- elements of the Airport Business Park Development
- heating upgrades and lift replacements within the Beecroft Art Gallery
- highways works to Victoria Avenue and Kent Elms.

Conclusion

It was confirmed that spend was compliant in that it fell within the definition of "capital" for accounting purposes.

¹ Symology is the Council's Highways Asset Management system

Appendix 2c: Grant Claims

Works were generally undertaken in line with the agreed business cases. However, for the Airport Business Park, agreement to changes in what was being delivered through grant funding had not been agreed with Essex County Council before work had taken place, as required by the agreement's terms and conditions.

The change involved using grant monies on elements of the business case that was to be funded by the Council's capital programme, due to a delay in the grant funded elements being delivered. After being raised as a concern by Internal Audit, suitable agreement was obtained.

Opinion: Unqualified

Pothole Action Fund

Purpose of funding

To assist in the repair of potholes across the borough.

Conclusion

It was confirmed that spend was compliant in that it fell within the definition of "capital" for accounting purposes

Opinion: Unqualified

Mentoring Fund

Purpose of funding

To provide a mentoring programme to students at risk of disengagement from education and plan for their future employment opportunities in South Essex, delivered in partnership with a range of secondary schools.

Conclusion

It was confirmed that spend was compliant in that it related to start-up costs incurred to develop the mentoring programme.

Opinion: Unqualified

Troubled Families Programme, Payments by Results Scheme Grant

Purpose of funding

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).

Appendix 2c: Grant Claims

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.

Conclusion

The DCLG arrangements for making PBR claims changed from April 2017 enabling councils to make more frequent claims. Therefore, Internal Audit has worked with the Early Help and Family Support Team (EHFST) to ensure timely submission of these claims.

This coincided with changes in arrangements within the EHFST for reviewing PBR claims, in that three 'Outcome Experts' / PBR Champions were identified. Regular 'Outcome Surgeries' have been established where:

- staff attend for advice and support on cases
- cases assessed as meeting PBR criteria are independently reviewed and challenges made over the level of evidence required to meet the Outcome Plan
- every case must be agreed as meeting all entry and exit criteria by an 'Outcome Expert' before a claim can be made.

Additional cases have been checked each period reviewed to ensure that the new PBR surgeries process is operating properly.

As the Troubled Families Outcome Plan is rolled out across Social Care teams and more teams outside of the EHFST begin working towards the outcomes, these surgeries will be key to ensure all claims meet both the entry and exit criteria.

Between the May and October 2017 submissions, 127 cases have been claimed for within the following categories:

- Families supported by the EHFST (100 cases)
- Child in Need (CIN) cases supported by Social Care teams (25 cases)
- Youth Offending Service (2 cases).

Of the 17 EHFST cases checked by Internal Audit, two were withdrawn initially because there was insufficient evidence to support them. All were successfully submitted as part of a later claim. They all fell within the May and July 2017 submissions and related to the first two categories outlined above.

In May, a concern was highlighted with the CIN cases, as it was not possible to evidence families had met the minimum two eligibility criteria required for entry into the programme. So, all such cases were removed from this claim and reviewed before being resubmitted.

Appendix 2c: Grant Claims

Some additional testing was also undertaken in July, to confirm that the work of a newer PBR champion was in compliance with the scheme.

No issues were identified with the Youth Offending Services claims.

Overall, it was possible to conclude that:

- the new Outcome Surgeries are starting to work well
- reliance can generally be placed on the cases checked by the Team Manager, EH&S.

May, July, September and October 2017 Opinions: Unqualified.

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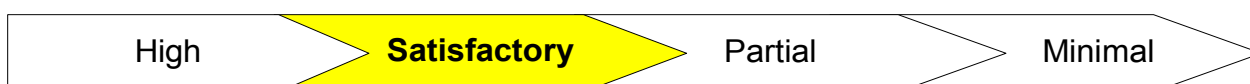
Appendix 2d: Schools Audit Opinions and Themes

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.

Earls Hall Primary School

Overall Opinion



Scope and Control Opinions

Key controls audited	Strength of control
<i>Governance</i>	
The Governing Body is properly formed and Governors are effectively recruited and trained.	Partial
Governors are provided with sufficient information to exercise their oversight role effectively.	Partial
Roles, responsibilities and powers are clearly defined and enforced.	High
<i>Information and Asset Management</i>	
Confidential, personal and sensitive information is effectively managed and secured.	Satisfactory
Assets are secured and maintained.	Satisfactory
<i>Financial Monitoring and Control</i>	
There are sufficient, appropriately qualified and experienced finance staff to plan, process and manage financial arrangements effectively and efficiently.	Satisfactory
Effective financial planning that provides a clear view of how the College will use its resources to achieve objectives.	High
The budget position is accurately known, monitored on a regular, timely basis and reported to senior management and the Governing Body.	High
Financial transactions are accurate, complete, authorised, substantiated, made securely and accurately recorded.	Partial
Goods and services are procured fairly and achieve value for money.	Satisfactory

Number of actions agreed:

High: 11

Medium: 0

Total: 11

Appendix 2d: Schools Audit Opinions and Themes

Summary

Governance

A 'Full Governing Body' has been established which now makes all decisions for the School and is effectively operated. A skills audit of the Governing Body had been undertaken, which covered all of the key competencies in line with the person specification contained within the Governor Job Description. This has been used to inform the future training needs of the Governing Body and recruitment activity.

Further work is now required to:

- develop a Terms of Reference for the newly structured Full Governing Body and then periodically assess performance against this
- ensure that all governors have registered their business interests.

Information and Asset Management

The majority of the School policies were reviewed and approved by the Full Governing Body in 2016, however; the Data Retention Policy was not among them. The School still needs to refresh its Data Retention Policy taking into account the implications of the new General Data Protection Regulation, which will come into force in May 2018.

An Asset Register is maintained which records all the relevant information about each asset. A check should be completed to confirm all relevant assets have been security marked.

The health and safety testing schedule needs amending to include a programme of planned preventative maintenance of the School's physical infrastructure. Regular maintenance and condition surveys of these assets are also required.

Financial Monitoring and Control

There are good arrangements in place to manage expenditure, which includes the Headteacher authorising all BACS runs, purchase orders, invoices and staff expenses. However, processes need to be developed to identify instances where purchase orders have not been raised, or were raised after the invoice date.

Job descriptions for the Office Assistants and Business Manager need to be amended to include the expected qualifications and experience for the roles.

Sales invoices are raised for the letting of School premises in line with the agreed Scale of Charges.

Further action is now being taken to:

- implement a process to independently check any additions and amendments to supplier details due to the high risk of fraud
- benchmark the cost of supply teachers to ensure best value for money is being obtained, having separate out from this code, spend on pupil premium teachers.

Appendix 2d: Schools Audit Opinions and Themes

Leigh North Street Primary School

Overall Opinion



Key controls audited	Strength of control
The Governing Body is properly formed and Governors are effectively recruited and trained.	Partial
Governors are provided with sufficient information to exercise their oversight role effectively.	Partial
Roles, responsibilities and powers are clearly defined and enforced.	Satisfactory
Confidential, personal and sensitive information is effectively managed and secured.	Partial
Assets are secured and maintained.	Partial
There are sufficient, appropriately qualified and experienced finance staff to plan, process and manage financial arrangements effectively and efficiently.	High
Effective financial planning that provides a clear view of how the school will use its resources to achieve objectives.	Satisfactory
The budget position is accurately known, monitored on a regular, timely basis and reported to senior management and the Governing Body.	Satisfactory
Financial transactions are accurate, complete, authorised, substantiated, made securely and accurately recorded.	Partial
Goods and services are procured fairly and achieve value for money.	Satisfactory

Number of actions agreed: High: 16 Medium: 0 Total: 16

Summary

Governance

A 'Full Governing Body' has been established which now makes all decisions for the School. Further work is now required to:

- develop a Terms of Reference for the newly structured Full Governing Body and then periodically assess performance against this
- build into its work programme the expectation that the School Development Plan is presented to the September Full Governing Body, annually

Appendix 2d: Schools Audit Opinions and Themes

- amend the Governor role description to set out the expected experience required
- ensure Governors' standing interests are properly recorded and the central register is kept up to date
- ensure staff are fully aware of emergency contact information required to implement the Managing Critical Incidents Policy.

The School needs to produce a Recruitment Policy and ensure that staff are aware of and are trained in implementing its requirements.

A central record is maintained which contains all information relating to staff Disclosure and Barring Service (DBS) checks. Amendments to this spreadsheet should be independently checked biannually to ensure the information within this central DBS record remains accurate and complete.

Information and Asset Management

The School needs to produce an Information Management Policy taking into account the implications of the new General Data Protection Regulation, which will come into force in May 2018.

School assets are recorded on an Asset Register, which is maintained by the Site Manager. It details the name and location of each asset but needs amending to include all serial numbers. Assets are security marked with invisible ink so they can be identified as School property. Spot checks need to be introduced to confirm they have all been marked and that they continue to exist.

Financial Monitoring and Control

The School needs to produce a Debt Recovery Policy that sets out the processes to be followed and the arrangements to report on its application to the Full Governing Body.

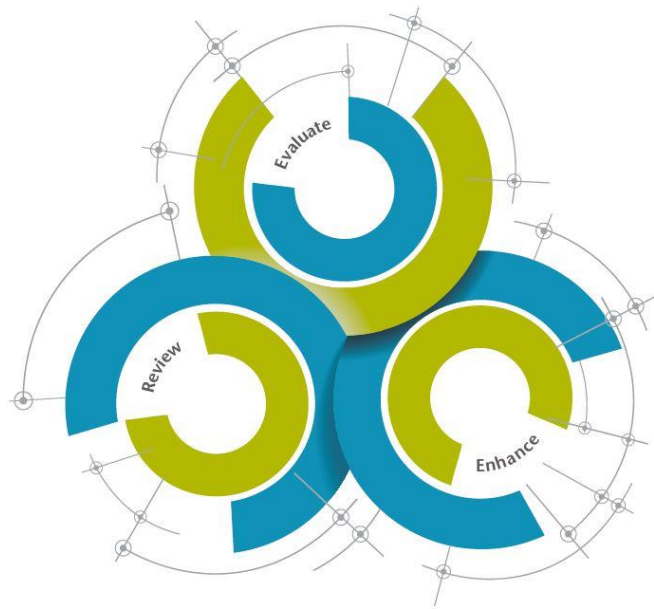
A Cash Flow Forecast should be produced monthly and included in the budget monitoring reports. Financial Regulations and the Scheme of Delegation are comprehensive and have been approved by the Governing Body. The Financial Regulations require:

- proper separation of duties when processing expenditure
- the need for the Headteacher or relevant Deputy to authorise all purchase orders, invoices, staff overtime payments and staff expenses.

Exception reports now need to be produced regularly to identify instances where purchase orders had not been raised as evidence was found where this was not the case. There is a need to reinstate the requirement (as outlined in Financial Regulations) to independently check any additions and amendments made to supplier details.

Sales invoices are raised for letting School premises in line with the agreed Schedule of Charges, which is detailed on the lettings application form. Prior approval should be obtained from the Headteacher, where the intention is to let premises but not apply the agreed Schedule of Charges.

A benchmarking exercise should be undertaken on the cost of supply teachers to ensure the School is receiving the best value for money from its current arrangements.



EXTERNAL QUALITY ASSESSMENT (EQA) FINAL REPORT FOR



**Southend-on-Sea Borough Council, Castle Point Borough Council and
South Essex Homes**

Prepared by John Chesshire and Liz Sandwith on behalf of the CIIA

29 October 2017

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Disclaimer: The EQA Review was concluded in October 2017 and provides management and the Audit Committee with information about Internal Audit as of that date. Future changes in environmental factors and actions taken to address recommendations, may have an impact upon the operation of Internal Audit in a manner that this report cannot anticipate. Considerable professional judgment is involved in evaluating. Accordingly, it should be recognised that others could draw different conclusions. This report is provided on the basis that it is for your information only and that it will not be quoted or referred to, in whole or part, without the prior written consent of Chartered IIA

EXECUTIVE SUMMARY

External Quality Assessment for Southend-on-Sea Borough Council, Castle Point Borough Council and South Essex Homes

The Internal Audit Services **fully meet most of the Standards, as well as the Definition, Core Principles and the Code of Ethics**, which form the mandatory elements of the Institute of Internal Auditors' International Professional Practices Framework (IPPF), the globally recognised standard for quality in Internal Auditing. This is described as **"Generally Conforms"** (See Appendix 1). It means that the Internal Audit Services may state in their internal audit reports for all clients that the work "has been performed in accordance with the IPPF".

We have benchmarked the performance of the Internal Audit Services against a maturity model based on a wide range of UK and Irish internal audit functions and we believe that it is **Good** in its:

- Reflection of the Standards
- Focus on performance, risk and adding value
- Quality Assurance and Improvement Programme

We consider that a key factor in these achievements is the dedication, knowledge, skills and experience of the Head of Internal Audit, Linda Everard, and her Audit Manager, Elaine Allen. Both are well respected by key stakeholders and the in-house service as whole is valued and trusted. Stakeholder feedback was not as universally positive about aspects of the external, contractor resource. Experience and insight was particularly valued, whether from in-house or external parties.

We consider that the Internal Audit Services **Needs Improvement** as regards:

- Coordinating and maximising assurance
- The efficiency of its operations

The need to consider how best to rely on and coordinate with other assurance providers is an emerging area of internal audit practice. It depends as much on the other assurance providers as it does internal audit, but it is something that could be explored more fully as governance, risk management and control maturity increases across the three organisations. Given the staffing shortfalls in the Internal Audit Services over the recent past, aspects of internal audit efficiency have suffered, as recognised and reported upon by the team. As these staffing issues are now nearly addressed, this provides an opportunity to revisit engagement planning and delivery to reduce the elapsed time from initiation to finalisation and completion. This should enhance the impact of audit work and further improve stakeholder relations.

We have provided the Head of Internal Audit with our comments in a detailed Standard-by-Standard checklist as a separate 90-page document.

We also make a number of recommendations to achieve conformance with the Standards. These are included below.

Finally, as part of this External Quality Assessment we undertook an online survey of thirty two managers at Southend-on-Sea, five managers from Castle Point and five managers from South Essex Homes. We received eleven responses in total. The majority of the results were positive 'excellent' or 'good' markings, with a few 'fair' assessments and a very small number of 'poor' ratings. This mirrors the Head of Internal Audit's expectations. We have sent on a separate copy of the full survey results to the Head of Internal Audit.

Conformance to the Standards: The International Professional Practice Framework (IPPF)

The objective of this External Quality Assurance (EQA) review was to undertake an independent, objective validation of the Southend-on-Sea, Castle Point and South Essex Homes Internal Audit Services self-assessments against the IPPF and Public Sector Internal Audit Standards (PSIAS). This has included considering the Services conformance to the IPPF, benchmarking the function's activities against best practice and assessing the impact of internal audit on each organisation.

The Institute of Internal Audit's (IIA's) International Professional Practice Framework (IPPF) includes the Definition of Internal Auditing, Core Principles, Code of Ethics and *International Standards*. There are 64 fundamental principles to achieve with 118 points of recommended practice.

We include a summary of the Internal Audit Services conformance to both the IPPF and the core principles for each of its client organisations at Appendix three. Overall, we believe that the Internal Audit Service has achieved a good performance given the breadth of the IPPF and the diverse organisational contexts that the team operate in across the region.

The overall assessment resulting from the EQA is that the Internal Audit Services "does generally conform to the IIA's professional standards" and by extension, the Public Sector Internal Audit Standards (PSIAS) for all clients.

It is therefore appropriate for the Internal Audit Services to say in reports and other literature that they "**conform to the IIA's professional standards**" and that their work has been performed "**in accordance with the IPPF.**"

This external quality assessment was conducted as a validation of the very thorough, comprehensive self-assessments carried out by the Internal Audit Services using the methods prescribed by the Chartered Institute of Internal Auditors. We reviewed an extensive range of documentary evidence, interviewed a small number of representative stakeholders and discussed aspects of this assessment with members of the Internal Audit Services. We have provided the Head of Internal Audit with our comments in a detailed standard-by-standard checklist as a separate 90-page document that summarises our view in respect of the internal audit service and its three clients.

Key Achievements

The Internal Audit Services deliver an effective independent and objective assurance service across the authorities and company they serve, covering the full range of activity that these organisations undertake. Some challenges remain, of course, but overall, we believe that stakeholders see the Head of Internal Audit and the core Internal Audit Services as professional, approachable, respected and competent in their work.

It was clear from our interviews and survey results that senior managers value the results of internal audit engagements.

The Service is led by a very experienced Head of Internal Audit who is a member of CIPFA and a CIPD associate. She is supported by an experienced audit manager, an interim and recently joined audit manager and a core team of two internal auditors, both of whom are still part of the service's innovative graduate training programme, and two business support colleagues. The team currently has a number of senior auditor and internal auditor vacancies. Co-sourcing arrangements exist with two external service providers, both of whom have also had EQAs in recent years.

The Internal Audit Services focus on delivering quality reports and insight against key, topical business risks. As a result, the business model they are adopting is to have fewer, more highly skilled experienced staff who understand the sector, its pressures and can deliver work in key areas of risk, such as procurement, contract management and business change. We support this, and note from our interviews that key stakeholders welcome this deeper approach with its more value adding engagement, reporting and recommendations.

Stakeholders were universally complimentary about the Head of Internal Audit's technical knowledge and experience. The Service as a whole is respected and valued. Stakeholders welcome the Internal Audit Services' engagement, visibility, objectivity and reporting.

Annual planning is comprehensive and is a very participative process involving clients and stakeholders at appropriate stages. Progress is documented and reported in quarterly sessions with respective audit committees and senior managers.

The Internal Audit Services have developed an appropriate methodology for auditing across Southend-on-Sea, Castle Point and South Essex Homes. The operational internal audit processes are fit for purpose and documented in a professional audit manual and an associated set of templates and supporting guidance. Our file reviews showed appropriate in-house compliance with their methodology and evidence of appropriate supervision and review. A lack of resourcing has impacted the Head of Internal Audit's ability to undertake 'cold' reviews of contractor working files. Following a risk-based approach, assurance has been placed on contractor internal quality assurance processes.

The internal auditors are directly supported by a dedicated and professional business support team, thus freeing up staff time to focus on core internal audit delivery.

The Internal Audit Services have been through a difficult two years, with a service review, recruitment freeze and associated uncertainty. It is to their credit that the team have emerged from this, continued to focus on the core internal audit role, and are moving towards a steady state operating model. We hope that this evolution will be substantially complete by the start of the financial year 2018-19 period.

Recommendations to achieve conformance to the Standards

The Head of Internal Audit has identified a number of proposed actions in their self-assessment. We agree with the majority of these and recognise that the remainder go beyond what we would expect in demonstrating strict conformance with the IPPF and PSIAS. We do not repeat these actions in our report.

We also make a relatively small number of additional recommendations and have detailed these below, together with the Head of Internal Audit's response(s):

Ref	IPPF section	Recommendations for the Head of Internal Audit	Head of Internal Audit (HoIA) Response
1.	1000 - Purpose, Authority, and Responsibility	More completely reference the Code of Ethics and unrestricted access elements' in the Audit Charter for all three clients, at the next update.	Agreed. <i>HoIA, South Essex Homes, February 2018 Audit Committee.</i> <i>HoIA, Councils, March 2018 Audit Committees.</i>
2.	1110 - Organisational Independence	Re-establish the one-to-one meetings between the HoIA and the Audit Committee.	At Southend, discuss with the new Chief Executive whether this practice can be re-instated. <i>HoIA, 31 December 2017</i>
			At Castle Point, discuss formally building this into the Audit Committee's annual work programme with the Head of Resources. <i>HoIA, 31 December 2017</i>
			At South Essex Homes, no action is required as this standard has always been complied with.
		Re-consider the Audit Committee's role in the appointment, remuneration and removal of the HoIA.	Confirm with the Chief Executives' at both Southend and Castle Point that they continue to choose not to implement this standard, as part of renewing the Collaborative Working Agreement for both Head of Internal Audit and Internal Audit Services. <i>HoIA, 31 December 2017</i>
			At South Essex Homes, no action is required as this is a bought in service and the Audit Committee is responsible for letting and managing of the Internal Audit contract.

Ref	IPPF section	Recommendations for the Head of Internal Audit	Head of Internal Audit (HoIA) Response
3.	1111 - Direct Interaction with the Board	Re-establish annual Audit Committee performance assessments in line with good practice.	At Southend, a draft assessment has been produced. There is a meeting on 27th November 2017 with the new Chief Executive and relevant officers to discuss it and how to take this forward.
			At Castle Point, produce an assessment with the Head of Performance and Service Support to discuss at the Good Governance Group on 20 November 2017. <i>HoIA, 3 November 2017</i>
			At South Essex Homes, no action is required as this standard has always been complied with.
4.	2010 - Planning	Refresh the formal risk-based audit universe to ensure that it remains topical, up to date and is communicated to key stakeholders.	Update the guidance that sets out how risk in each category within the audit risk assessment, is assessed. Simplify the overall scoring criteria for the audit risk assessment, so that it highlights whether it is a potential audit risk or not (rather than scoring 1 to 4). Summarise the activities considered significant enough to warrant periodic, independent challenge by internal audit. <i>AMs / HoIA, March 2018</i> Present the list periodically to senior management and the Audit Committee as part of the audit planning process.
5.	2050 - Coordination and Reliance	Consider developing a fit for purpose assurance map, following the refresh of the audit universe.	At all clients, Internal Audit will further develop the "other assurance" element of the audit risk assessments particularly with regard to corporate business management processes, as part of the 2018/19 audit planning round. <i>AMs / HoIA, March 2018</i>
			At Southend, no other action is proposed by Internal Audit.

Ref	IPPF section	Recommendations for the Head of Internal Audit	Head of Internal Audit (HoIA) Response
			<p>At Castle Point, the Good Governance Group (GGG) will:</p> <ul style="list-style-type: none"> • make this a work stream using all the intelligence it currently has • re-consider the practicalities of building "assurance" into the risk management process as part of the update of the framework currently being undertaken. <p><i>GGG complete by March 2018</i></p> <hr/> <p>At South Essex Homes, refresh and update the assurance map produced a few years ago with the Group Manager, Resources & Business Development, when producing the Audit Plan for 2018/19.</p> <p><i>HoIA / GM, R&BD, February 2018</i></p>
6.	2070 - External Service Provider and Organisational Responsibility for Internal Audit	As the in-house team becomes more established, the HoIA should consider how best to ensure the effective direction, management and supervision of external contractor resources to ensure effective delivery to quality, cost, time and relationship standards.	<p>My second Audit Manager (AM) post was not filled until July 2017.</p> <p>The team is in the process of reallocating all remaining contractor jobs to one or other of the AMs (taking me out of the equation).</p> <p>All new contractor work will have AM time allocated to it to:</p> <ul style="list-style-type: none"> • help with the set up of jobs • enable audit delivery to be supported • enable the reports to be reviewed before going to the Head of Internal Audit for clearance. <p>This now needs to bed down and become fully effective rather than taking any further action.</p> <hr/> <p>Clear the remaining few older reports so that the focus is on the current work.</p> <p><i>AM / HoIA December 2017</i></p> <hr/> <p>The budget needed to effectively manage jobs being completed by contractors will be fundamentally reviewed as part of the 2018/19 Audit Planning process for all clients.</p> <p><i>AMs / HoIA, March 2018</i></p>

Ref	IPPF section	Recommendations for the Head of Internal Audit	Head of Internal Audit (HoIA) Response
7.	2420 - Quality of Communications	Reflect on what can be done to reduce the elapsed time from start to finish of internal audit engagements, leading to more efficient and timely delivery.	<p>Currently this elapsed time is not consistent with all jobs. Internal staff reports generally get cleared much more quickly than contractor work as they are better drafted, with control related management actions.</p> <p>Actions required to address this are:</p> <ul style="list-style-type: none"> • allocate sufficient time for AMs to manage all contractor work (see above) • complete the project on upgrading / refreshing how we use APACE, our time recording / performance management data base <p><i>Business Support Team, March 2018</i></p> <ul style="list-style-type: none"> • use APACE effectively to timetable the delivery of audits and monitor progress against both budgets and timelines <p><i>Business Support Team to manage process</i></p> <ul style="list-style-type: none"> • re-introduce the target of issuing draft reports within 15 days of the final feedback meeting. <p><i>All staff, for 2018/19 Audit Plans</i></p>
8.	2420 - Quality of Communications	Consider further engagement with key stakeholders on the overall opinions, explaining how they are determined and whether they could be presented in a clearer and more intuitive way to aid understanding.	<p>Finalise the draft audit opinion guide for new audits.</p> <p><i>HoIA, October 2017</i></p> <p>Produce new guidance on opinions for follow up audits.</p> <p><i>HoIA, December 2017</i></p> <p>Include a requirement in the Audit Manual about:</p> <ul style="list-style-type: none"> • issuing the guidance to and discussing it with clients within the draft terms of reference • attaching it as an appendix to the report. <p><i>AMs, March 2018</i></p>

Ref	IPPF section	Recommendations for the Head of Internal Audit	Head of Internal Audit (HoIA) Response
9.	2431 - Engagement Disclosure of Non-conformance	Consider updating the Audit Manual with a small section covering this particular situation and referencing PS2431.	Agreed. <i>AMs, March 2018</i>
10.	2440 - Disseminating Results	Consider what aspects of approving the final engagement communication before issuance could be delegated to the audit managers.	<p>The operating model the team is designed for is that:</p> <ul style="list-style-type: none"> • AMs are responsible for all aspects of day to day service delivery, which includes getting terms of reference and reports to an acceptable standard to be issued • the HoIA role is far more strategic meaning she only gets involved in operational issues when needed. So with regards to terms of reference and reports, the HoIA's role is just clear them for issue (like a partner in a firm) and spend minimal time reviewing / amending. <p>For this to operate as designed, other recommendations need to have been dealt with i.e.:</p> <ul style="list-style-type: none"> • AM and senior auditor posts need to be filled with staff operating fully at these levels • the time allocated to managing contractors and processes to do this need to be fully effective • the refreshed time and performance management system (APACE) needs to be in place • the Business Support Team restructure needs to be completed and the service fully operational. <p>No other actions are required.</p>
11.	2500 – Monitoring Progress	Consider how best to report outstanding, overdue recommendations to key stakeholders at regular intervals.	A process was agreed in principle with each client, whereby service areas would provide assurance to the Audit Committee that actions arising from Internal Audit reports with High or Satisfactory assurance, had been properly implemented. Internal Audit would not then revisit these reports. This still needs to be implemented in practice.

Ref	IPPF section	Recommendations for the Head of Internal Audit	Head of Internal Audit (HoIA) Response
			<p>Service management teams at each client have their own arrangements for monitoring the delivery of agreed actions from the relevant data base there are maintained on.</p> <p>This information is not being reported to Audit Committees.</p> <p><i>Actions required</i></p> <p>Finalise the arrangements for reporting to Audit Committee on management sign off of action plans for audit reports with high or satisfactory opinions.</p> <p><i>Business Support Manager, March 2018</i></p> <p>Design the content and format of a report to go to Audit Committee, for each client that shows the progress made by services in addressing agreed actions, for each live audit report.</p> <p><i>Business Support Manager / HoIA, March 2018</i></p>

Opportunities for Further Development and Continuous Improvement

The Chartered Institute regards conformance to the IPPF – and by extension the PSIAS - as the foundation for effective internal audit practice.

However, in our EQA reviews we also seek feedback from key stakeholders and we benchmark each function against the diversity of professional practice seen on our EQA reviews and other interviews with chief audit executives, summarised in an Internal Audit effectiveness matrix (page thirteen).

We then interpret our findings into a summary of strengths and weaknesses (page fifteen) to set the scope for further development based upon the wide range of guidance published by the Chartered Institute. It is our aim to offer advice and a degree of challenge to help internal audit functions continue their journey towards best practice and excellence.

Internal Audit Maturity Matrix: Internal Audit Services Effectiveness highlighted

Assessment	IIA standards	Focus on performance, risk and adding value.	Coordination and maximising assurance	Operating with efficiency	Quality Assurance and Improvement Programme
Excellent	Outstanding reflection of the IIA standards, in terms of logic, flow and spirit. Generally conforms in all areas.	IA alignment to the organisation's objectives, risks and change. IA has a high profile, is listened to and is respected for its assessment, advice and insight.	IA is fully independent and is recognised by all as a 3 rd line of defence. The work of assurance providers is coordinated with IA reviewing reliability thereof.	Assignments are project managed to time and budget using tools/techniques for delivery. IA reports are clear, concise and produced promptly.	On-going efforts by IA team to enhance quality through continuous improvement. QA&IP plan is shared with and approved by AC.
Good	The IIA Standards are fully integrated into the methodology – mainly generally conforms.	Clear links between IA engagement objectives to risks and critical success factors with some acknowledgement of the value added dimension.	Coordination is planned at a high level around key risks. IA has established formal relationships with regular review of reliability.	Audit engagements are controlled and reviewed while in progress. Reporting is refined regularly linking opinions to key risks.	Quality is regarded highly, includes lessons learnt, scorecard measures and customer feedback with results shared with AC.
Satisfactory	Most of the IIA Standards are found in the methodology with scope to increase conformance from partially to generally conform in some areas.	Methodology requires the purpose of IA engagements to be linked to objectives and risks. IA provides advice and is involved in change but criteria and role require clarity.	The 3 lines of defence is model is regarded as important. Planning of coordination is active and IA has developed better working relationships with some review of reliability.	Methodology recognises the need to manage engagement efficiency and timeliness but further consistency is needed. Reports are informative and valued.	Clear evidence of timely QA in assignments with learning points and coaching. Customer feedback is evident. Wider QA&IP may need formalising.
Needs improvement	Gaps in the methodology with a combination of non-conformances and partial conformances to the IIA Standards.	Some connections to the organisation's objectives and risks but IA engagements are mainly cyclical and prone to change at management request.	The need to coordinate assurance is recognised but progress is slow. Some informal coordination occurs but reviewing reliability may be resisted.	Multiple guides that are slightly out of date and form a consistent and coherent whole. Engagements go beyond deadline and a number are deferred.	QC not consistently embedded across the function. QA is limited / late or does not address root causes.
Poor	No reference to the IIA Standards with significant levels of non-conformance.	No relationship between IA engagements and the organisation's objectives, risks and performance. Many audits are ad hoc.	IA performs its role in an isolated way. There is a feeling of audit overload with confusion about what various auditors do.	Lack of a defined methodology with inconsistent results. Reports are usually late with little perceived value.	No evidence of ownership of quality by the IA team.

SWOT analysis: Internal Audit Services opportunities for development

What works well (Strengths)	What could be done better (Weaknesses)
<ul style="list-style-type: none"> • The Head of Internal Audit and the team are highly respected by key stakeholders. • Stakeholders felt very engaged in the annual engagement planning processes. • Stakeholders felt that the annual plans covered relevant, useful subjects. • Stakeholders were supportive of the engagement report format and structure. • The core Internal Audit Services were generally viewed as competent, knowledgeable, visible and approachable. Particular mention should go to Elaine Allen, Audit Manager as stakeholders were hugely positive about her enthusiasm and dedication. • Key stakeholders believe that the Internal Audit Services deliver added value. • The Head of Internal Audit is flexible about amending the agreed annual plans to reflect changing priorities and emerging issues. • Critical friend role and Review reports are particularly valued. 	<ul style="list-style-type: none"> • Lack of timeliness in internal audit engagements from initiation, through fieldwork to reporting and finalising means that impact can be reduced and stakeholders not fully informed each time, every time. • More formal coordination and knowledge sharing with other internal and external assurance providers may help improve governance, risk and control across the authorities. • More formal assurance mapping may help evidence where the Internal Audit Services could usefully focus their future efforts and correspondingly highlight where less work could be undertaken if alternate assurances are robust and reliable.
What could deliver further value (Opportunities)	What could stand in your way (Threats)
<ul style="list-style-type: none"> • Reinstigate a range of effective performance metrics for 2018-19 onwards now that the Internal Audit Services' staff resources are stabilising. • Learning from recent experiences on the duration of internal audit engagements – are the planned durations realistic and achievable given governance maturities? • Improve communications and messaging around the engagement level opinions and which agreed actions are more urgent/higher priority through RAG coding. • Build in time for effective knowledge transfer from the co-sourced partners, especially in the area of IT related audit practices. • Refresh the formal risk-based audit universe to ensure that it remains topical, up to date and is communicated to key stakeholders. • Ensure proportionate and risk-based management and quality assurance of external contractor resources to ensure the Internal Audit Services' reputation is not impacted through less effective work or poor relationship management. • Revisit and actively monitor risks to the achievement of the Internal Audit Services' objectives to ensure negative impacts are reduced. • Enhanced use of data analytics may offer greater assurance over transactions. 	<ul style="list-style-type: none"> • Loss of the Head of Internal Audit and Audit Managers would impact service delivery, as well as potentially unit reputation and standing. • Small but growing core Internal Audit Services with risk of loss of continuity, local knowledge and expertise if staff move elsewhere. • Enhancing team competence and proficiency in emerging areas of risk (e.g. cyber, GDPR, culture) will require further investment. These areas may seem specialist today, but they should be core to our future role.

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The following rating scale has been used in this report.

Overall Audit Grading	
Generally Conforms (GC)	The assessor has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual Standard or element of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformance to a majority of the individual Standards or elements of the Code of Ethics, and at least partial conformance to the others, within the section/category. There may be significant opportunities for improvement, but these must not represent situations where the activity has not implemented the Standards or the Code of Ethics, has not applied them effectively, or has not achieved their stated objectives. As indicated above, general conformance does not require complete/perfect conformance, the ideal situation, successful practice, etc.
Partially Conforms (PC)	The assessor has concluded that the activity is making good-faith efforts to comply with the requirements of the individual Standard or element of the Code of Ethics, section, or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the Standards or Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the activity and may result in recommendations to senior management or the board of the organisation.
Does Not Conform (DNC)	The assessor has concluded that the activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many/all of the objectives of the individual Standard or element of the Code of Ethics, section, or major category. These deficiencies will usually have a significant negative impact on the activity's effectiveness and its potential to add value to the organisation. They may also represent significant opportunities for improvement, including actions by senior management or the board.

Often, the most difficult evaluation is the distinction between general and partial. It is a judgement call keeping in mind the definition of general conformance above. The assessor must determine if basic conformance exists. The existence of opportunities for improvement, better alternatives, or other successful practices does not reduce a “generally conforms” rating.

We greatly appreciate the time and assistance given by stakeholders and members of Southend-on-Sea, Castle Point and South Essex Homes during the review.

Name	Position / role
Joe Chesterton	Director of Finance and Resources, S151, Southend Borough Council
Cllr Meg Davidson	Audit Committee Chair, Southend Borough Council
Mike Gattrel	Chief Executive, South Essex Homes
Tim Hooper	PWC, co-sourced auditor
Simon Leftley	Deputy Chief Executive (People), Southend Borough Council
Andrew Lewis	Deputy Chief Executive (Place), Southend Borough Council
Chris Mills	Head of Resources, Castle Point Borough Council
Craig Watts	Head of Performance and Service Support, Interim Head of Housing, Castle Point Borough Council

Online Survey

Finally, as part of this External Quality Assessment we undertook an online survey of thirty two managers at Southend-on-Sea, five managers from Castle Point and five managers from South Essex Homes.

We received 11 responses. The majority of the results were positive 'excellent' or 'good' markings, with a few 'fair' assessments and a very small number of 'poor' ratings. This mirrors the Head of Internal Audit's expectations. We have sent on a separate copy of the full survey results to the Head of Internal Audit.

Summary of conformance tables for each client organisation

Appendix 3

Southend Borough Council:

Summary of IIA Conformance	Standards	N/A	Does not Conform	Partially Conforms	Generally Conforms	Total
Definition of IA and Code of Ethics	Rules of conduct	0	0	0	12	12
Purpose	1000 - 1130	0	0	4	4	8
People	1200 - 1230	0	0	0	4	4
Performance	1300 - 1322	0	0	0	7	7
Planning	2000 - 2130	0	0	2	10	12
Process	2200 - 2600	1	0	4	16	21
Total		1	0	10	53	64

Castle Point Borough Council:

Summary of IIA Conformance	Standards	N/A	Does not Conform	Partially Conforms	Generally Conforms	Total
Definition of IA and Code of Ethics	Rules of conduct	0	0	0	12	12
Purpose	1000 - 1130	0	0	4	4	8
People	1200 - 1230	0	0	0	4	4
Performance	1300 - 1322	0	0	0	7	7
Planning	2000 - 2130	0	0	2	10	12
Process	2200 - 2600	1	0	4	16	21
Total		1	0	10	53	64

South Essex Homes:

Summary of IIA Conformance	Standards	N/A	Does not Conform	Partially Conforms	Generally Conforms	Total
Definition of IA and Code of Ethics	Rules of conduct	0	0	0	12	12
Purpose	1000 - 1130	0	0	4	4	8
People	1200 - 1230	0	0	0	4	4
Performance	1300 - 1322	0	0	0	7	7
Planning	2000 - 2130	0	0	2	10	12
Process	2200 - 2600	1	0	2	18	21
Total		1	0	8	55	64

CIPFA Better Governance Forum**Audit Committee Update**

– helping audit committees to be effective

Issue 23

- **2017 edition of the Public Sector Internal Audit Standards**
- **Understanding the risks and opportunities from Brexit**
- **Recent developments and resources**

September 2017

Introduction

Dear audit committee member,

Welcome to Issue 23 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's main article focuses on changes to the Public Sector Internal Audit Standards that are likely to come before the audit committee. Having oversight of internal audit and supporting the professional practice of internal auditing is one of the key roles of the audit committee so it is helpful to be aware of new developments.

A second article considers some of the risks that may be featuring in your risk registers around Brexit. This is of course an area where there is a lot of uncertainty, however, it is helpful for a public sector organisation to think through any likely implications for service delivery and resources management.

I hope you will find this issue helpful. We welcome feedback on these briefings and suggestions for future topics. Please let us know if we are getting them right.

Best wishes

Diana Melville
Governance Advisor
CIPFA Better Governance Forum
diana.melville@cipfa.org

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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.

Principal Content	Link
Issues from 2010 – the content in these issues has been replaced by more recent issues	
Issues from 2011	
Strategic Risk Management, Governance Risks in 2011, Role of the Head of Internal Audit	Issue 4
Understanding the Impact of IFRS on the Accounts, Key Findings from CIPFA’s Survey of Audit Committees in Local Government	Issue 5
Partnerships from the Audit Committee Perspective	Issue 6
Issues from 2012	
Assurance Planning, Risk Outlook for 2012, Government Response to the Future of Local Audit Consultation	Issue 7
Commissioning, Procurement and Contracting Risks	Issue 8
Reviewing Assurance over Value for Money	Issue 9
Issues from 2013	
Public Sector Internal Audit Standards and Updates to Guidance on Annual Governance Statements	Issue 10
Local Audit and Accountability Bill, the Implications for Audit Committees Update of CIPFA’s Guidance on Audit Committees	Issue 11
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	
Reviewing the Audit Plan, Update on the Local Audit and Accountability Act, Briefing on Topical Governance Issues	Issue 13
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
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
Issues from 2017	
Developing an Effective Annual Governance Statement, Regular Briefing on Current Developments, Audit Committee Training	Issue 22

Workshops and Training for Audit Committee Members in 2017

Development day for police audit committees

The Better Governance Forum and Police Network have run workshops for members of police audit committees over the past two years. These workshops provide the opportunity to receive briefings on current issues in policing, audit and governance. The workshops are a practical way to improve the focus and impact of audit committees and extend the knowledge and skills of audit committee members.

[20 September 2017, London](#); [21 September 2017, York](#)

In house training

In house audit committee training 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.

For further details contact chris.o'neill@cipfa.org or email diana.melville@cipfa.org or visit the CIPFA website where we have a [brochure](#) to download outlining our services for audit committees.

Need some help in improving your committee?

As a BGF subscriber you have access to all the previous issues of Audit Committee Update listed on pages two and three. The CIPFA publication *Audit Committees: Practical Guidance for Local Authorities and Police* also contains resources to help you assess and improve your committee. Audit committee training and facilitation is also available.

Changes to the Public Sector Internal Audit Standards

The [Public Sector Internal Audit Standards](#) (PSIAS) were updated in April 2017 following the consultation earlier in the year. The standards are mandatory for internal audit in the public services, including local government, health and central government. The update reflects the changes made to the *International Professional Practices Framework* (IPPF) of the Global Institute of Internal Auditors on which the PSIAS is based. In addition, amendments were made to the public sector requirements and public sector interpretations which form part of the PSIAS.

As the standards are mandatory your internal audit team should now be working to them and making any changes required to their local practices. It would be expected that the Internal Audit Charter would be updated to reflect the new standards and brought to the audit committee for approval.

Roles beyond internal auditing

One area of significant change is the introduction of a new standard: *1112 Chief Audit Executive Roles Beyond Internal Auditing*. If the head of internal audit (referred to as the chief audit executive in the standards) takes on roles or responsibilities that fall outside of internal auditing, then safeguards must be put in place to limit impairments to independence or objectivity. The head of internal audit must highlight any actual or perceived impairment to the board or audit committee and safeguards should be considered to protect internal audit independence.

CIPFA welcomes this addition to the standards as it takes account of a trend for heads of internal audit to have other responsibilities. For example, some heads of internal audit are also responsible for risk management or corporate counter fraud. Audit committees should note that the standards **do not** say that a head of internal audit cannot have responsibility for other functions, but they rightly emphasise the importance of internal audit independence and the need to ensure it is safeguarded. It is vital that this principle is considered locally and the head of internal audit is adequately supported to meet professional requirements. The audit committee should exercise its responsibility for oversight of internal audit and support internal audit's ability to meet professional standards.

Planning for external quality assessments

Local authorities have until 31 March 2018 to complete their external quality assessment (EQA) in compliance with the PSIAS. The standards require an external assessment to test conformance with the standards at least once every five years. Since the PSIAS were introduced on 1 April 2013, the five-year period will end soon. The assessment can be delivered in several ways, including the external validation of a self-assessment, having a peer review or using an external assessor. There are a range of providers of EQAs, including CIPFA and more information is available on the [CIPFA website](#).

Further details of the audit committee role in supporting the assessment can be found in [Issue 21 of Audit Committee Update](#). The 2017 update to PSIAS now requires that the chief audit executive communicate the results to senior management and the board, which in most cases means the audit committee, and include them in the annual report.

Audit committees should also be aware that the EQA should be based on the PSIAS, not the IPPF (which tends to be used in the private sector in the UK) and for local government it should also include requirements set out in the [Local Government Application Note](#) published by CIPFA. If your internal audit service is provided by a contractor or shared www.cipfa.org/services/networks/better-governance-166um

service then you should ensure that their EQA covers the client relationship with you. Further guidance on this is available from the [Internal Audit Standards Advisory Board](#).

The ultimate goal of professional standards is to ensure a consistent high quality internal audit service. By supporting internal audit to comply with the standards means that the audit committee will be able to confidently rely on the work of internal audit and its work will have greater credibility within the organisation.

Key Questions to Ask	
1	Does the head of internal audit undertake any roles beyond internal auditing?
2	If so, what does this mean for the independence or objectivity of internal audit?
3	Are safeguards needed and what would be appropriate?
4	What is the current position of our EQA? Did it/will it include both the PSIAS and the Local Government Application Note (applicable for local government bodies only) and cover the client relationship?
5	Is the audit committee doing enough to support internal audit in meeting professional standards?

Diana Melville

Governance Advisor

Brexit, the Public Services and the Audit Committee

The implementation of Brexit is likely to have a significant impact on the public services. As we enter a period of negotiations the final deal won't be known for some time, but it is likely that the impact will be felt well before then. Partly this will be a consequence of political and economic uncertainty which could start to settle down, but could worsen before it improves.

So what does this have to do with the audit committee? I think it is important that the committee is aware of the areas of potential risk to the organisation and encourages and supports a pragmatic approach to risk management and contingency planning. Some of the agenda items of the audit committee may include these risk areas, so it is important for the audit committee member to have an understanding of the context. Not every organisation will have the same set of risks. Factors such as the local economy, local labour market and local key employers will make a difference.

Has your organisation already identified any risks and opportunities? And is it taking steps to monitor and manage those risks?

CIPFA has founded [The Brexit Advisory Commission for Public Services](#) to examine the risks and consequences for the public services and its work will help public bodies develop their understanding of the risks.

The following may be a helpful starting point for your local risk assessment.

Potential Risk Area	Potential Impact on a Public Service Organisation
<p>Public finances</p> <p>Overall national economic performance will impact on tax revenue, and may have consequences for funding for public services, either positively or negatively.</p>	<p>Different parts of the public sector have varying degrees of reliance on public funding, however, any change to grants or funding levels will have an impact on service provision.</p>
<p>National economic trends</p> <p>Fluctuations in the exchange rate, particularly the dollar which affects fuel prices and the euro if this is important for your supply chain.</p>	<p>If the exchange rate worsens against the dollar this will make fuel more expensive, impacting on running costs.</p> <p>Some aspects of the supply chain may also be impacted if imported goods are a significant cost.</p>
<p>Workforce and students</p> <p>New rules on immigration may restrict availability of eligible applicants</p> <p>Potential to recruit employees from EU states and other countries outside the EU may be reduced if the UK is seen as less attractive because of an unfavourable exchange rate or</p>	<p>Some sectors have been identified as being highly reliant on international staff, for example the NHS and social care providers.</p> <p>Universities may also be impacted by reduced EU and international students and appointment of academic staff.</p> <p>There is the potential for reduced pressure</p>

negative publicity.	on local services such as school places or housing if immigration reduces.
<p>Local economy and key employers</p> <p>Impact of Brexit on the local economy will vary according to sector and area. This is a complex factor that needs to be looked at locally.</p>	<p>The strength of the local economy has implications for local generation of income and collection of business rates.</p> <p>Local employment rates and wage levels will impact on demand-led public services such as payment of benefits, social housing demand etc.</p>
<p>Availability of funding for investment or regeneration</p> <p>Local areas or schemes that have previously received EU funding will need to establish the likelihood of replacement UK funding.</p>	<p>Some continuity of funding has been guaranteed by the government but there remains uncertainty. For example, the Local Government Association (LGA) has recently called for £8.4bn of EU funding to be replaced after Brexit to support investment in local growth. Organisations in receipt of or anticipating EU funding will need certainty over future funding.</p>
<p>Policy changes</p> <p>In the short term there is unlikely to be any significant change but longer term could bring changes to environmental policy or regulations affecting employment or procurement.</p>	<p>Future policy changes may present opportunities to deliver services in a different way or to reduce regulatory requirements. Implementing significant changes may have consequences, for example additional resources may be need to reconfigure services and supporting processes.</p>
<p>Government priorities</p> <p>There are a range of other pressing issues for public services, including affordable housing supply, funding of social care and security. The government's ability to adequately address these issues while pursuing the Brexit negotiations will also have consequences for public services.</p>	<p>If legislation or reform of other policy matters is delayed then there may be consequences for the delivery of services and achievement of objectives.</p>

Once a risk assessment has been completed, organisations should plan mitigations or contingencies where appropriate and practical. As new information is received it is likely that the risk assessment and plans will need to be updated. The audit committee may also seek assurances on how effectively any significant risks are being monitored and managed.

For further information on The Brexit Advisory Commission for Public Services please visit [the website](#).

Recent Developments You May Need to Know About

Legislation and Consultations

Data Protection Bill – Statement of Intent

The government has published a Statement of Intent setting out its vision for the digital economy and its planned data protection reforms. The bill will bring the provisions of the General Data Protection Regulation into UK law from May 2018. Key changes for public bodies include the requirement to have a nominated data protection officer. Where changes are needed to meet the requirements the audit committee could support the implementation work and monitor key actions.

[Department for Digital, Culture, Media & Sport](#)

Reports, Recommendations and Guidance

Annual governance statements 2016/17

The latest date for approval of the annual government statement for local government bodies is 30 September. The statements are the first to reflect the new *Delivering Good Governance in Local Government: Framework* (CIPFA/Solace, 2016) and the new principles of good governance. The previous [issue of Audit Committee Update](#) contained an article about developing an effective statement so audit committee members are recommended to review this when considering their statement.

One question that regularly comes up is whether the statement needs to be updated if new information comes to light after 31 March of the year in question. The guidance is that the statement should be up to date at the time of publication, so a significant governance issue that comes to light between 1 April and the final date of publication should be considered for inclusion in the statement.

[Delivering Good Governance in Local Government: Framework](#)

External audit appointments

Public Sector Audit Appointments (PSAA) has announced the results of the procurement exercise for external auditors of local authority, police and fire bodies. A number of contracts have been awarded and PSAA is now working on the allocation of auditors to specific clients. One of the key criteria is to avoid any conflicts of interest. PSAA plans to consult clients on its proposals before finalising appointments by 31 December 2017. Audit committees should contribute to the consultation process for their organisation. Details of fees will not be known until March when PSAA launches its consultation.

[Public Sector Audit Appointments](#)

External audit contract and quality monitoring

PSAA is responsible for monitoring the current audit contracts and publishes an annual report on the results of its work. The *Regulatory Compliance and Quality Review Programme* report for 2017 is now available. Overall the compliance and contract monitoring rating is 'amber' using a red, amber, green scale. PSAA draws on the quality review work of the Financial Reporting Council and highlights relevant areas for improvement. Audit committees should be aware that one of the areas for improvement is that external auditors should report more thoroughly to audit committees. PSAA also publishes reports for each external audit firm. More detail about the audit committee role in monitoring external audit is contained in [Issue 14 of Audit Committee Update](#). [Public Sector Audit Appointments](#)

Reports on the results of external auditors' work

PSAA also publishes an annual report drawing together the results from external audit opinion, one for health bodies and one for local government bodies. The report for health audits concluded for 2016/17 is now available, the local government report will be available later in the year. None of the trusts had a qualified true and fair opinion on the financial statements, but 19% had an adverse conclusion on their value for money arrangements.

[Public Sector Audit Appointments](#)

Scrutiny of treasury management

The Centre for Public Scrutiny (CfPS) has published a second edition of *Treasure Your Assets*. This guidance covers the basics of treasury management and explores the scrutiny role that is a requirement of CIPFA's [Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes](#) (2011). Audit committees may sometimes undertake the scrutiny role in relation to treasury management. If this is the case then this publication will be useful in understanding more about this complex area.

[Centre for Public Scrutiny](#)

How well does scrutiny work? Scrutiny Self-evaluation Framework

As part of the annual governance review process it is helpful to consider the effectiveness of the scrutiny process. Good scrutiny is one of the contributors to good governance and the absence of effective internal challenge has been a contributing factor to governance failures. The CfPS has developed a self-evaluation framework to support improvement and it can inform the annual governance statement.

[Centre for Public Scrutiny](#)

Look Out For

Guidance for audit committees

CIPFA is currently updating the 2013 edition of *Audit Committees: Practical Guidance for Local Authorities and Police*. The new edition will reflect legislative changes and recent updates to governance and internal audit standards. Some of the key changes include:

- audit committees for combined authorities
- external audit appointments
- *Delivering Good Governance in Local Government: Framework* (CIPFA/Solace, 2016)
- *Public Sector Internal Audit Standards* (2017)
- developments in good practice for audit committees to monitor and support external audit ethical standards.

The publication is due to be published in November 2017. Further details are available from [CIPFA](#).

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Diana Melville
Governance Advisor
Better Governance Forum
CIPFA
77 Mansell Street
London, E1 8AN
Tel: 01722 349398
diana.melville@cipfa.org
www.cipfa.org



Certificate No.

Annual Regulatory Compliance and Quality Report

BDO LLP

July 2017

Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association in August 2014.

The Secretary of State for Communities and Local Government delegated a number of statutory functions (from the Audit Commission Act 1998) to PSAA on a transitional basis by way of a letter of delegation issued under powers contained in the Local Audit and Accountability Act 2014.

As a consequence of these delegations, for 2017/18 the company will continue to be responsible under transitional arrangements for appointing auditors to local government and police bodies, for setting audit fees and for making arrangements for certification of housing benefit subsidy claims.

Looking beyond 2017/18, the Secretary of State has specified PSAA as an appointing person for principal local government bodies from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2016

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Summary report

Introduction

1 Public Sector Audit Appointments Limited (PSAA) monitors the performance of all its audit firms. The results of our monitoring provide audited bodies and other stakeholders with assurance that auditors within our regime are delivering high-quality audits.

2 There are two strands to our monitoring:

- audit quality- applying our annual quality review programme (QRP) to the audit work undertaken for the 2015/16 year of account; and
- regulatory compliance- reporting quarterly on audit firms' compliance with our 2016/17 regulatory requirements as set out in the Terms of Appointment.

3 The audit quality and regulatory compliance monitoring for 2016/17 incorporated a range of measurements and checks comprising:

- a review of each firm's latest published annual transparency reports;
- the results of reviewing a sample of each firm's audit internal quality monitoring reviews (QMRs) of its financial statements, Value for Money (VFM) arrangements conclusion and housing benefit (HB COUNT) work. Our review included assessing compliance with the HB COUNT guidance;
- an assessment as to whether we could rely on the results of each firm's systems for quality control and monitoring;
- a review of the Financial Reporting Council's (FRC) published reports on the results of its inspection of audits in the private sector;
- the results of our inspection of each firm by the FRC's Audit Quality Review team (AQR) as part of our commissioned rolling inspection programme of financial statements and VFM work;
- the results of each firm's compliance with 15 key indicators relating to our Terms of Appointment requirements;
- a review of each firm's systems to ensure they comply with our regulatory and information assurance requirements; and
- a review of each firm's client satisfaction surveys for 2015/16 work.

4 This report summarises the results of our monitoring work for BDO LLP

Overall performance

5 The firm is meeting our standards for overall audit quality and our regulatory compliance requirements. We calculated the red, amber, green (RAG) indicator for overall audit quality and regulatory compliance using the principles detailed in Appendices 1 and 2.

6 For 2016/17, BDO's combined audit quality and regulatory compliance rating was amber.

Figure 1: 2017 Comparative performance for audit quality and regulatory compliance

BDO	EY	GT	KPMG	Mazars
-----	----	----	------	--------

7 BDO's overall weighted audit quality score has decreased to 1.62 from 2.38 last year.

8 BDO maintained its green rating performance against the regulatory compliance indicators since last year, with eleven indicators scored as green, two as amber and two as red.

9 The satisfaction survey results show that audited bodies are very satisfied with the performance of BDO as their auditor.

Detailed report

Quality review programme

FRC Inspection

10 Every year each firm provides a self-assessment in the form of a transparency report issued in accordance with the requirements of the Professional Oversight Board of the FRC. Our review of the latest BDO transparency report did not highlight any significant issues of note.

11 Annually, the FRC publishes reports on the audit firms subject to full scope FRC inspections, including firms in our regime. We place reliance on the work of the FRC, which reviews the firms' systems and processes for ensuring audit quality and reviews a sample of their audits of public interest entities. The reports focus on the key areas requiring action by the firm to safeguard and enhance audit quality. They do not seek to provide a balanced scorecard of the quality of a firm's audit work.

12 In its latest public report on BDO, the FRC reported on eight engagement reviews. In seven cases they concluded that audit procedures were performed to an acceptable standard. One audit was identified as requiring significant improvement, one more than last year.

13 The FRC has identified key issues in its reports which, profession wide, should be addressed in order to improve audit quality. These were:

- challenge of management in key areas involving judgement, such as impairment reviews, asset valuations and provisions;
- the design and execution of audit procedures relating to revenue recognition; and
- systems and arrangements for ensuring compliance with ethical and independence requirements.

14 We have raised these issues with BDO and with all other firms in our regime and we will continue to monitor progress in these areas.

15 We also commissioned inspections of all firms by the FRC's Audit Quality Review Team (AQRT) for this year's QRP. The AQRT inspected one financial statements opinion and one VFM arrangements conclusion file from BDO's 2015/16 PSAA work and provided an updated commentary on the applicability of firm-wide procedures to our audits. Having considered the review points raised by the AQRT, we assessed the financial statements audit as significant improvements required. The VFM arrangements conclusion work was also assessed as significant improvements required.

16 The principal issues resulting from the AQRT reviews of financial statement audits, across all the firms, following this year's programme of work for PSAA were:

- insufficient challenge and independent corroboration of management experts' valuations of property, plant and equipment (PPE) and other fixed assets;
- insufficient documentation of risk assessment procedures where PPE not classified as a significant audit risk despite the account balance being subject to key estimation

uncertainty and valuation policies requiring periodic valuations increasing the risk of misstatement over the account balance;

- insufficient audit work over the valuation of pension scheme assets, testing of data provided to actuaries and direction and review of the pension fund auditor;
- inadequate procedures to test the completeness, authorisation and appropriateness of journals, and risk characteristic testing not comprehensive in all cases;
- deficiencies in the audit procedures of a first year audit, including lack of consideration of prior year significant risks and issues as part of the audit team's risk assessment, and insufficient evidence of client take on procedures;
- limited evidence to support the testing rationale for operating expenditure and the testing of completeness of expenditure and liabilities; and
- the involvement of the RI in the areas of key audit significance was not to the level expected and was a potential causal factor for many of the issues identified in at the audits for which they were responsible.

17 In respect of VFM arrangements work, the AQRT reported:

- a lack of enquiry of senior and non-financial management staff as part of the audit team's risk assessment;
- where risks were identified, there was a lack of inquiry of appropriate management in completing procedures in response to those identified significant risks; and
- failure to evidence account taken of governance issues (e.g. changes to s151 officer, political leadership, matters in reported in Annual Governance Statement).

18 We have combined our scores for the AQRT inspections for PSAA with the firm's QMR scores in the relevant sections in the rest of this report. These improvement points are included in Appendix 4.

QMR programme

19 PSAA sets quality standards for its appointed auditors and monitors their performance against them. The principal means of monitoring and evaluating the quality of auditors' work is the annual QRP. For 2016/17 we relied on each firm's own quality monitoring arrangements.

20 All firms agreed to follow PSAA's methodology and reporting format for their QMRs for VFM arrangements conclusion and HB COUNT work and to use their own methodology for assessing work on the financial statements (converting the financial statements results to our scoring system). We concluded that BDO's QMRs were sufficiently detailed and rigorous for us to place reliance on all of the reviews provided by the firm.

21 Each firm scored their QMRs using a common four-point scale, with 3 being the highest and 0 being the lowest. A score of 1 is our benchmark for acceptable performance. The full assessment scale is detailed in Table 1 and we calculated the score for overall audit quality on a weighted assessment using the weightings detailed in appendix 1.

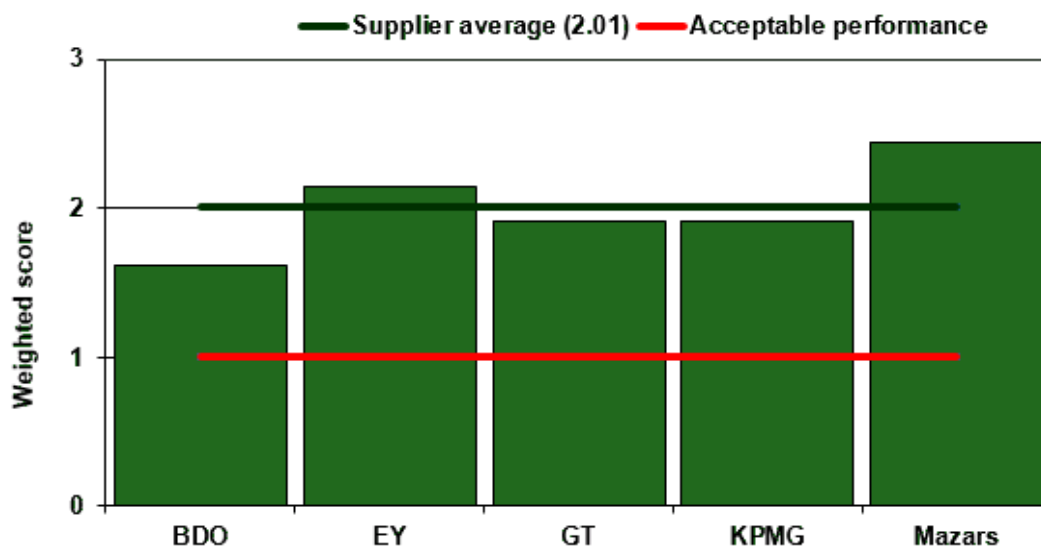
Table 1: PSAA assessment scale

Score	Descriptor
3	Good
2	Acceptable with limited improvements required
1	Acceptable overall with improvements required
0	Significant improvements required

22 BDO's score was 1.62, compared to an all firm average of 2.01. This was lower than last year's score of 2.38.

23 Figure 2 shows the assessment of BDO's overall audit quality performance in comparison to other firms.

Figure 2: 2017 Audit quality performance



24 Our QRP methodology is designed to highlight any specific weaknesses at individual file level, specifically where our benchmark score of 1 is not met, which may have ordinarily been masked behind a high average score across the various elements (Financial statements, VFM and HB COUNT) of the QRP.

25 We have calculated a red, amber, green (RAG) indicator for each element of the QRP, using the principles detailed in Appendix 2, as well as for overall audit quality. Where a firm scores an average of less than 2, or has any scores of 0, a rating higher than amber in

that element is not possible. Where a firm has three individual scores of 0, then the overall rating is red.

26 For 2016/17, BDO's overall rating for audit quality was red as it had four audit quality scores of 0. We consider each of the individual elements making up this rating below.

Figure 3: **2017 Comparative performance for audit quality**



Financial statements audit work

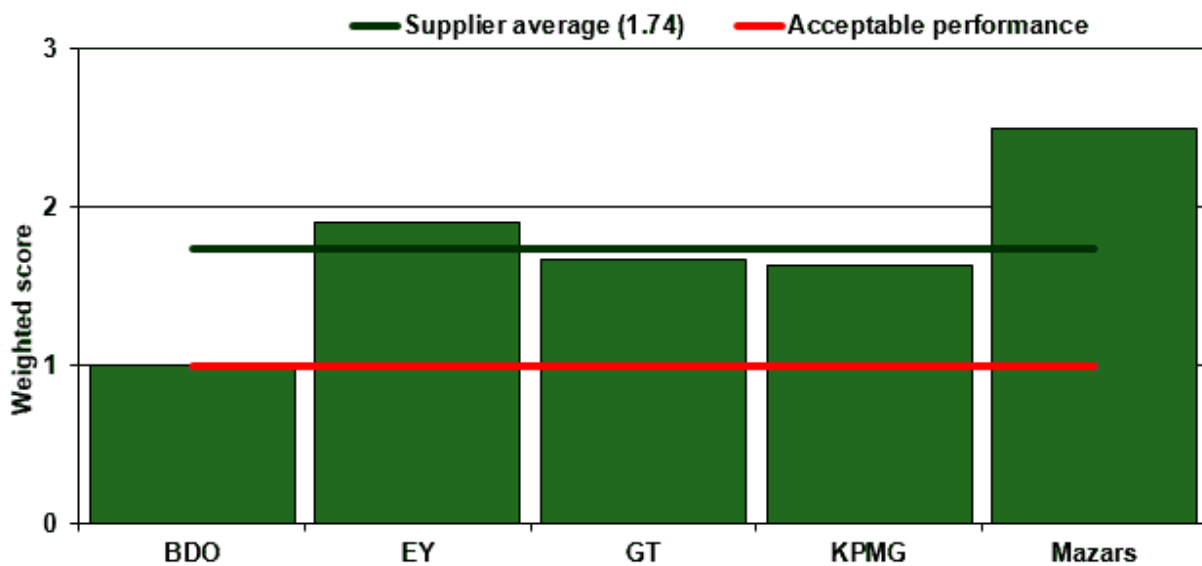
The firm provided the results of four QMRs for financial statement audit files. We reviewed these and agreed with the firm's assessments.

27 The improvement areas from these reviews included:

- obtaining better evidence to support asset valuations;
- better documenting audit sampling, journals testing and the validity of information prepared by the entity; and
- having clearer documentation on file of Engagement Quality Control Reviewer involvement.

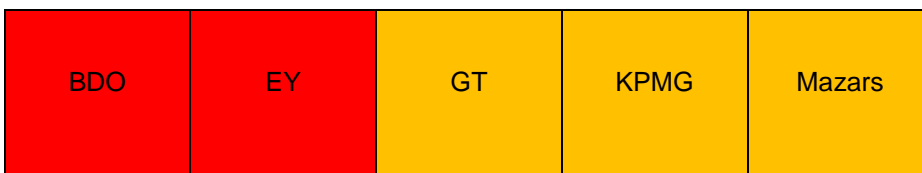
28 In addition, the AQRT reviews for PSAA provided a score for one additional financial statements assessment. Figure 4 shows the comparative performance for financial statement audit work based on the results of the QMRs and AQR review. BDO's average score was 1.0 compared to an all firm average of 1.74.

Figure 4: 2017 financial statements performance



29 For 2015/16 audit work, BDO's rating for financial statements work was rated red because two financial statement audits were scores as 0 (significant improvements required).

Figure 5: 2017 Comparative performance for financial statements audit work



VFM conclusion audit work

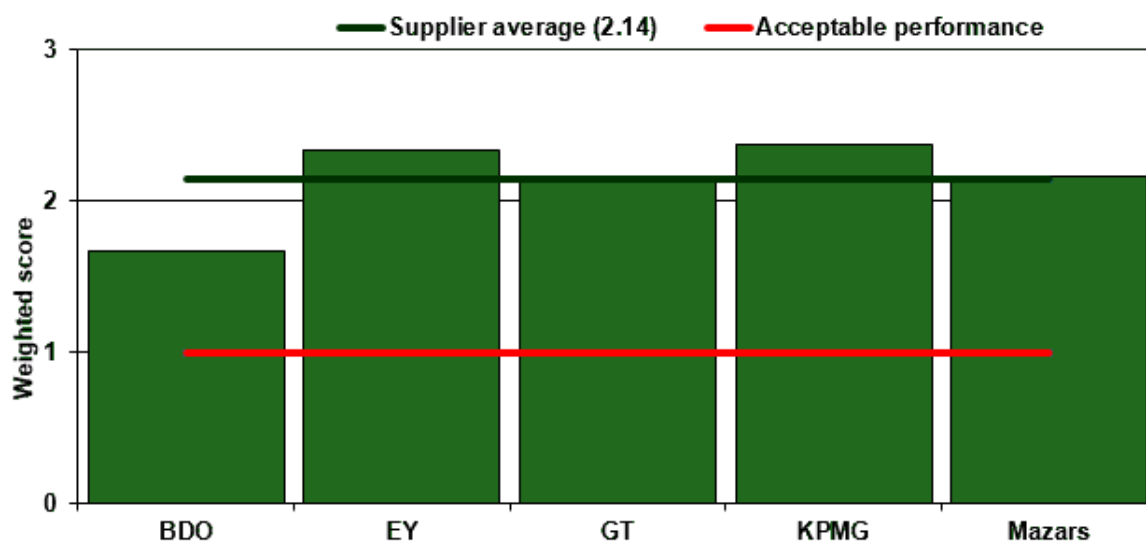
30 The firm provided the results of two QMRs for VFM arrangements conclusion audit work. We reviewed the results and agreed with the assessments.

31 The improvement areas from these individual QMRs and the AQRT review included:

- ensuring information from different sources is triangulated; and
- ensuring clearer documentation on file of the consideration of risks and evidence.

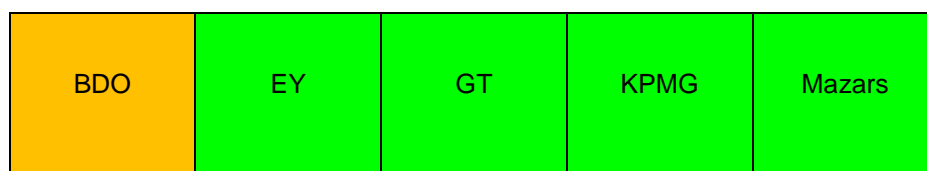
32 In addition, the AQR review for PSAA provided a score for one additional VFM arrangements conclusion assessment. Figure 6 shows the comparative performance for VFM audit work based on the results of the QMRs and the AQRT review. BDO's score was 1.67 compared to an all firm average of 2.14.

Figure 6: 2017 VFM conclusion performance



33 For 2015/16 VFM arrangements conclusion work, BDO’s rating was amber as one VFM arrangements conclusion was rated as 0 (significant improvements required).

Figure 7: 2017 Comparative performance for VFM conclusion audit work



Housing benefit work

34 Each year auditors certify local authority claims for housing benefit subsidy to the Department for Work and Pensions (DWP). They are required to undertake this work using specific guidance and tools (HB COUNT) which are agreed annually with the DWP. HB COUNT sets out the approach and work needed to certify the subsidy claim form. It includes a requirement to test a sample of cases to check that benefits have been awarded in accordance with benefit regulations and that subsidy has been properly claimed.

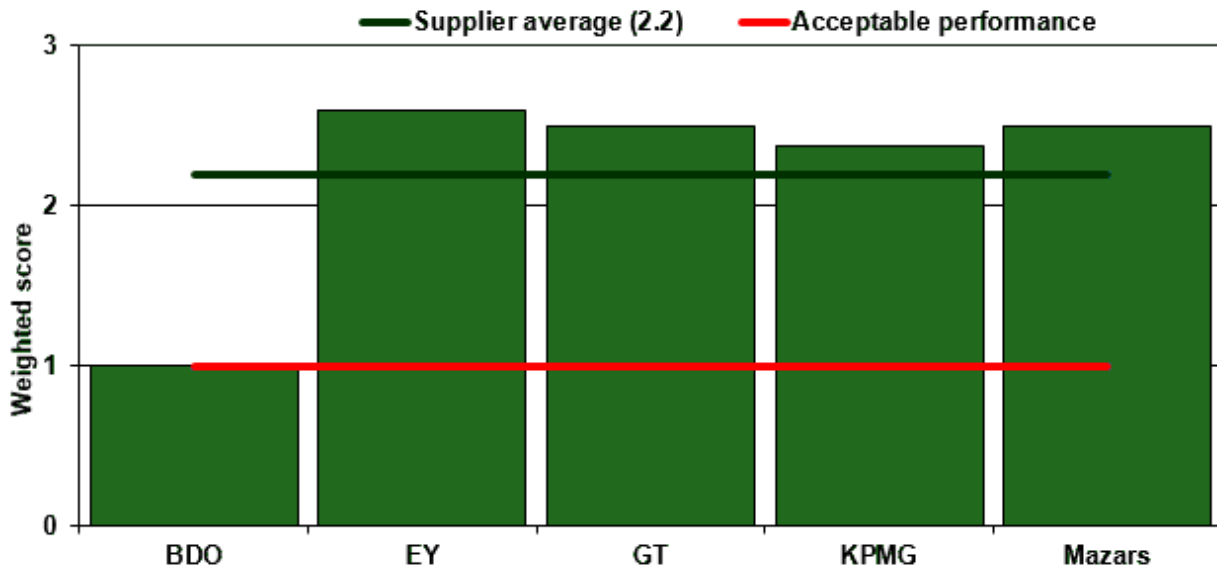
35 The BDO provided the results of two QMRs for HB COUNT work. We reviewed the results of these and we agreed with the BDO’s assessments.

36 The improvement areas from these individual QMRs included:

- ensuring any qualification letter points contain the level of detail required by the Certification Instructions, completing extended testing where required;
- fully completing and retaining the HB COUNT workbooks.

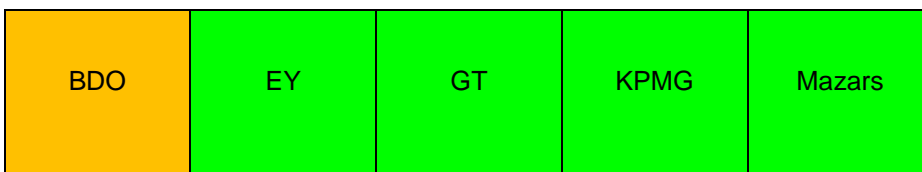
37 Figure 8 shows the comparative performance of each firm based on the QMRs. BDO's average score was 1.00 compared to an all firm average of 2.20.

Figure 8: 2017 HB COUNT performance



38 For 2016/17, HB Count certification work BDO's rating was amber as one HB COUNT piece of work was rated as 0 (significant improvements required).

Figure 9: 2017 Comparative performance for HB COUNT audit work



Regulatory compliance

Systems for compliance with our regulatory requirements

39 In 2016/17, BDO confirmed to PSAA that its systems and procedures for regulatory compliance were the same as those in the previous year. Nothing came to PSAA's attention in year to suggest this is not correct, and we concluded that we could continue to rely on BDO's systems.

Systems for compliance with our information assurance requirements

40 During 2015, PSAA instructed its Internal Auditor (TIAA) to undertake a review of the firm's information assurance arrangements based on a return completed by the BDO. The review considered whether the firm met the requirements of information governance

legislation. There were no issues arising as a result of this review and we concluded that we could rely on the firm’s arrangements. For this review, the firm has provided confirmation that its general systems and procedures have not changed and we can continue to rely on them for regulatory compliance

Quarterly monitoring of our regulatory requirements

41 PSAA reported the details in the quarterly monitoring reports issued to the firm during the year, including fee variation request and requests for non-audit services from the firm. Figure 10 details the firm’s overall regulatory compliance RAG rating compared to other firms.

Figure 10: 2017 Comparative performance for regulatory compliance

BDO	EY	GT	KPMG	Mazars
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42 The firm generally performed well across eleven of the regulatory compliance requirements. There were three authorities where the firm was unable to issue its opinions in line with the target date. This also had an effect on other indicators, so four of the 15 indicators were not rated as green:

- issue of LG opinions (red);
- issue of LG VFM arrangements conclusions (red);
- issue of WGA reports (amber); and
- issue of AALs (amber).

43 We have included a summary at Appendix 3 of the results of the 2016/17 regulatory compliance monitoring RAG ratings, comparing the firm’s performance against the overall performance for all firms.

Client satisfaction surveys

44 All firms agreed to undertake client satisfaction surveys for 2015/16 audits, and to report the results to PSAA. We specified questions to be included in the survey and asked firms to provide us with an analysis of the results.

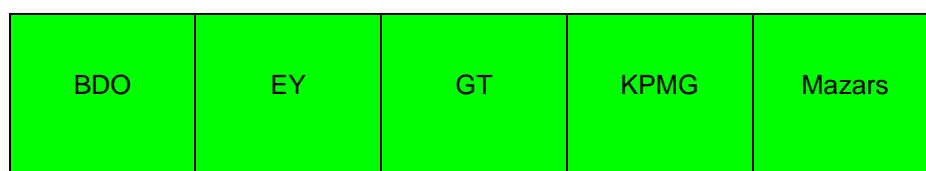
45 The firm received results from a sample of audited bodies on completion of their 2015/16 audit. Table 2 details the questions and the average score.

Table 2: **Satisfaction survey results**

Question	Average score (max. 10)
How satisfied are you overall with your audit?	8.0
How satisfied are you with the amount of contact with your Engagement Lead?	8.2
How satisfied are you with the amount of contact with your Audit Manager?	8.2
How satisfied are you with the technical competence and skills of your audit team?	7.7
How satisfied are you with your auditor's performance at committee meetings?	7.8
How satisfied are you with your auditor's understanding of the key issues and risks specific to your organisation?	8.3
How satisfied are you with the usefulness of your auditor's reports?	7.5
How satisfied are you with the timeliness of your auditor's reports?	7.5

These results show that audited bodies are, on the whole, very satisfied with the level of service received from BDO and for 2015/16 work, BDO's rating for client satisfaction was green.

Figure 11: **2017 Comparative performance for client satisfaction**



46 The firm has undertaken an analysis of any improvement points raised in the survey and has committed to action any individual improvement points identified.

Recommendations

Recommendations arising from the 2016/17 quality review programme

47 The key areas for improvement identified this year from file reviews are noted below, as taken from the body of this report:

Financial statements

- obtaining better evidence to support asset valuations;
- better documenting audit sampling, journals testing and the validity of information prepared by the entity; and
- having clearer documentation on file of Engagement Quality Control Reviewer involvement.

VFM

- ensuring information from different sources is triangulated; and
- ensuring clearer documentation on file of the consideration of risks and evidence.

HB

- ensuring any qualification letter points contain the level of detail required by the Certification Instructions, completing extended testing where required; and
- fully completing the HB COUNT workbooks.

Compliance

- No issues

48 Appendix 4 provides details of the actions the firm has, or intends to take to address these improvement areas. We understand the findings from the QMR will be considered by the firm's quality team and then communicated to staff.

Appendix 1 – Weightings to calculate overall quality score

Table 3: **Weightings**

Audit element	Local government 60%	NHS 40%
Financial statements	60	70
VFM Conclusions	30	30
HB	10	-
Total	100	100

Appendix 2 - Audit quality and regulatory compliance RAG rating

Table 4: QRP elements of financial statements, VFM conclusions and housing benefit work.

Rating	Firm level: Overall Audit Quality score	Firm level: Individual QRP element
Green	Firm audit quality score ≥ 2 and no scores of '0' at file review level	Average element score ≥ 2 and no scores of '0' at file review level
Amber	Firm audit quality score ≥ 1 with up to two scores of '0' at file review level	Average element score ≥ 1 with up to one score of '0' at file review level
Red	Firm audit quality score < 1 , or Firm audit quality score ≥ 1 but three or more scores of '0' at file review level	Average element score < 1 , or Average element score ≥ 1 but two or more scores of '0' at file review level

Table 5: Regulatory compliance RAG rating based on 15 quarterly monitoring

Rating	Overall Firm level score- indicators
Green	11 or more at green and no more than two at red.
Red	Six or more indicators at red.
Amber	Neither green nor red.

Table 6: Combined audit quality and regulatory compliance RAG

		QRP RAG		
		Red	Amber	Green
Regulatory compliance RAG	Red	R	R	A
	Amber	R	A	A
	Green	A	A	G

Table 7: RAG rating the results of satisfaction survey results

Firm assessment (average)	Firm unsatisfactory – satisfactory assessment (average)	PSAA RAG rating
0 – 5 0 - 10		
0-1.5 0 - 3	very dissatisfied / dissatisfied / unsatisfactory	R
1.5 – 3.5 4 – 6	reasonable / good / satisfied	A
3.5 – 5 7 - 10	very good / very satisfied / outstanding	G

Appendix 3 - Results of 2016/17 regulatory compliance monitoring

Activity	Target	All Suppliers % (no.)	BDO % (no.)	Firm Comments
Issue of planning (fee) letters.	100% by 29 April 2016. Green>95.01% delivered or only 1 missed Amber 90.01% to 95% delivered or only 2 missed Red<90% delivered or 3 or more missed	100% (0)	100% (0)	
Issue of NHS audit opinions.	100% by 27 May 2016 (CCG) and 1 June 2016 (NHS Trusts). Green>95.01% delivered or only 1 missed Amber 90.01% to 95% delivered or only 2 missed Red<90% delivered or 3 or more missed	100% (0)	100% (0)	
Issue of NHS VFM conclusions.	100% by 27 May 2016 (CCG) and 2 June 2016 (NHS Trusts). Green>95.01% delivered or only 1 missed Amber 90.01% to 95% delivered or only 2 missed Red<90% delivered or 3 or more missed	100% (0)	100% (0)	
Issue of local government audit opinions.	100% by 30 September 2016. Green>95.01% delivered or only 1 missed Amber 90.01% to 95% delivered or only 2 missed Red<90% delivered or 3 or more missed	97% (16)	86% (3)	These opinions were delayed due to circumstances beyond the firm's control.
Issue of local government audit VFM conclusions.	100% by 30 September 2016. Green>95.01% delivered or only 1 missed Amber 90.01% to 95% delivered or only 2 missed Red<90% delivered or 3 or more missed	97% (17)	86% (3)	These VFM arrangements opinions were delayed due to circumstances beyond the firm's control.
Issue of WGA reports.	100% by 21 October 2016. Green>95.01% delivered or only 1 missed Amber 90.01% to 95% delivered or only 2 missed Red<90% delivered or 3 or more missed	97% (16)	91% (2)	These were issued after the target date as a result of the delays in issuing the financial statements opinion.
Confirmation of final NHS fee to audited bodies	100% by 31 July 2016 Green>95.01% delivered or only 1 missed Amber 90.01% to 95% delivered or only 2 missed Red<90% delivered or 3 or more missed	100% (0)	100% (0)	
Issue of NHS annual audit letters.	100% by 31 July 2016 Green>95.01% delivered or only 1 missed Amber 90.01% to 95% delivered or only 2 missed Red<90% delivered or 3 or more missed	99% (2)	100% (0)	
Confirmation of final local government fee to audited bodies	100% by 30 October 2016 Green>95.01% delivered or only 1 missed Amber 90.01% to 95% delivered or only 2 missed Red<90% delivered or 3 or more missed	100% (0)	100% (0)	
Issue of local government annual audit letters.	100% by 30 October 2016 Green>95.01% delivered or only 1 missed Amber 90.01% to 95% delivered or only 2 missed Red<90% delivered or 3 or more missed	97% (18)	91% (2)	These were issued after the target date as a result of the delays in issuing the financial statements opinion.

Activity	Target	All Suppliers % (no.)	BDO % (no.)	Firm Comments
Audited body database information.	Accurate database information provided to PSAA. Green>95.01% delivered or only 1 missed Amber 90.01% to 95% delivered or only 2 missed Red<90% delivered or 3 or more missed	99% (11)	100% (0)	
Complaints upheld against auditors.	Complaints upheld against auditors. Green 0 Upheld Amber 1 upheld Red 2 or more upheld	1	0	
Non-compliance with requirements on independence issues.	Instances of non-compliance. Firms: Green 1 case Amber 2 cases Red 3 or more cases Regime: Green Up to 5 cases Amber 6 or 7 cases Red 8 or more cases	1	0	
Attendance at Contact Partner Meetings	Attendance of Contact Partner at all meetings. Firms: Green 1 case Amber 2 cases Red 3 or more cases Regime: Green Up to 5 cases Amber 6 or 7 cases Red 8 or more cases	0	0	
Consideration of objections	Outstanding objections not determined within 9 months. Firms: Green 1 case Amber 2 cases Red 3 or more cases Regime: Green Up to 5 cases Amber 6 or 7 cases Red 8 or more cases	5	0	

Appendix 4 - Summary of regulatory compliance and QRP improvement areas

Table 8- improvement areas

Area	Improvement required	BDO response
Key messages from FRC annual reports	<p>A need for auditors to improve the quality of the audit evidence of the challenge of management on key judgement areas, such as impairment reviews, asset valuations and provisions;</p> <p>A need for auditors to improve the design and execution of audit procedures relating to revenue recognition; and</p> <p>A need for auditors to improve the systems and arrangements for ensuring compliance with ethical and independence requirements.</p>	<p>Quality and Documentation of Audit Evidence</p> <p>The quality and documentation of audit evidence particularly in key judgement areas were identified in a number of root cause analysis investigations undertaken as a result of the files reviewed by the FRC in 2016.</p> <p>A number of actions have been undertaken to address this issue:</p> <p><u>ISA 540 workbook</u></p> <p>We have created a new ISA 540 workbook which was released in March 2017 to be used when dealing with significant audit estimates. This should ensure that we make appropriate assessments of the work of the expert, provide sufficient challenge to management about key judgements and document clearly the results of our testing made in relation to fair values and the sensitivities around these judgements.</p> <p><u>Training</u></p> <p>The firm has created mandatory training for the new ISAs (UK) which is being rolled out to the</p>

		<p>audit stream in summer/autumn 2017. The key messages are:</p> <ul style="list-style-type: none"> • Understand the principles documented in the ISAs (UK) • Decide how these should be practically applied to the audit including what audit evidence is required; and • Document clearly the work performed in the audit tool including all relevant audit evidence. <p><u>Guidance</u></p> <p>One issue that has come up on a number of the root cause analysis investigations is that audit teams have different ideas about what constitutes applicable audit evidence and what should be retained on file. A consistent message will be created in the form of a guidance document and circulated in time for use on December 2017 year ends.</p> <p>Audit of Revenue Recognition</p> <p>Consideration of the strategy for the audit of revenue was a key focus of the mandatory training undertaken for the audit stream in autumn 2016. This included the focus on completeness of revenue and ensuring that all revenue that should have been recognised was.</p> <p>As we noted in our 2017 FRC public report, guidance was issued in September 2016 in relation to the use of substantive analytical</p>
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		<p>procedures (SAPs) particularly in areas such as revenue to ensure appropriate expectations can be set before this type of testing is used as a response to risk.</p> <p>We are currently in the process of developing guidance detailing the use of cash received as audit evidence to confirm the completeness of revenue, when this is appropriate and issues to consider.</p> <p>We will continue to keep a watching brief on this area via the internal AQAR process and respond accordingly.</p> <p>Ethical and Independence Requirements</p> <p>We note that in general our systems and arrangements for ensuring compliance with ethical and independence requirements are sound and we have made continuous improvements over the past few years. One area where we have had a small number of issues arising is the appropriate and timely consultation with the ethics partner on independence matters. We performed a root cause analysis early in 2017 to investigate this issue. As noted in our 2016/17 AQR public report:</p> <p>‘Whilst not extensive in number we acknowledge that there are still circumstances arising where the ethics partner is not consulted appropriately and on a timely basis. We undertook a root cause analysis to investigate what how to reduce even further the number of incidents where</p>
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		<p>teams and individuals fail to follow correct procedures.</p> <p>A number of causes were identified:</p> <ul style="list-style-type: none">• Partners are required to complete a number of different forms for different reasons, which means the process is not always efficient and information can be missed – we are reviewing this process and the potential for simplification.• The audited entity may engage directly with other parts of our business for non-audit services without fully appreciating the complexity of the independence requirements. As noted earlier in this report we are designing new communications for new and existing clients covering the legal and ethical regime in place for public interest clients.• Where audited entities become public interest for example, due to an increase in market capitalisation, they do not always inform us on a timely basis and this leads to implications for our independence. In order to address this issue we need to ensure that there is a process in place at the planning and completion stages of the audit to confirm with the audited entity any changes in status.
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		We are reviewing our engagement take on process to assist in the timely notification and evaluation of any non-audit services. ‘
AQR review on PSAA work (across all firms)	<p>The risk assessment of Property, Plant and Equipment (PPE) should consider the impact on the risk of misstatement over the account balance caused by estimation uncertainty and valuation policies requiring periodic valuations.</p> <p>Ensure that sufficient challenge and independent corroboration is made of management experts’ valuations of property, plant and equipment PPE and other fixed assets;</p> <p>Better evidence audit work over the valuation of pension scheme assets, testing of data provided to actuaries and direction and review of the pension fund auditor;</p> <p>Evidence procedures to test the completeness, authorisation and appropriateness of journals, and ensure that risk characteristic testing is comprehensive;</p> <p>Ensure that client take on procedures are evidenced on first year audits. Prior year significant risks and issues should be evidenced as part of the audit team’s risk assessment;</p> <p>Evidence the decisions taken to support the testing rationale for operating expenditure and the testing of completeness of expenditure and liabilities; and</p>	<p>The Public Sector Assurance (PSA) team is completing a Root Cause Analysis exercise, independently facilitated by our Technical Standards Group (TSG), to determine the causal factors to our weaker quality scores in 2015/16. This will result in a detailed action plan, the implementation of which will be monitored through the PSA Partners, Directors & Managers group. Progress will be periodically reported from the group to BDO UK’s Head of Audit.</p> <p>All Partners, Directors and Managers have been briefed on the findings of the quality reviews and are required to ensure that they are addressed in the 2016/17 audits and teams are briefed on the specific matters arising.</p> <p>Our risk assessment processes already require us to consider estimation uncertainty in significant account balances and the risk of material misstatement arising from periodic valuation policies where applicable. However, to improve the process going forward, we will make a rebuttable presumption that PPE valuation presents a significant risk of material misstatement.</p>

	<p>Ensure that the involvement of the RI in the areas of key audit significance is to the level expected and properly documented.</p> <p>Evidence that enquiry of senior and non-financial management staff is included as part of the audit team's VFM arrangements risk assessment and response to identified significant risks.</p> <p>Evidence account taken of governance issues (e.g. changes to s151 officer, political leadership, matters in reported in Annual Governance Statement) in providing VFM arrangements conclusion.</p>	<p>We will continue to train our staff to ensure that appropriate professional scepticism is applied when reviewing management experts' valuations of property, plant and equipment and that this is fully documented on audit files. We anticipate that the root cause analysis process will identify further relevant actions to take.</p> <p>We have produced new guidance on the audit of employee benefits. We have also updated our template for recording the use of management experts in respect of the actuary and updated the assurance request letter to the auditor of the pension fund, to support staff with better design and evidence of audit work undertaken in these areas.</p> <p>We will continue to use our data analytics software BDO Advantage to support our journals testing. Our audit approach is already designed to ensure this is addressed and staff will be reminded of the need to improve their documentation in respect of journals.</p> <p>We have refreshed our audit working papers for recording our review of predecessor auditor files for new clients, and consideration of prior year significant risks, to address these issues.</p> <p>RIs have been reminded of the need to evidence their appropriate and timely engagement in the</p>
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		<p>audit, with sufficient depth of input to areas of key audit significance.</p> <p>We have refreshed our VFM assessment work programmes and reminded Partners, Directors and Managers involved in VFM work of the need to retain appropriate evidence on file.</p>
Financial statements	<p>Obtain better evidence to support asset valuations;</p> <p>Better documenting audit sampling, journals testing and the validity of information prepared by the entity; and</p> <p>Have clearer documentation on file of the extent of Engagement Quality Control Reviewer involvement.</p>	<p>The Public Sector Assurance (PSA) team is completing a Root Cause Analysis exercise, independently facilitated by our Technical Standards Group, to determine the causal factors to our deteriorated quality scores in 2015/16. This will result in a detailed action plan, the implementation of which will be monitored through the PSA Partners, Directors & Managers group. Progress will be periodically reported from the group to BDO UK's Head of Audit.</p> <p>The detailed findings of the financial statements reviews have been shared with the Partners, Directors and Managers involved in the assessment in 2016/17 through our technical update training and PSA Partners, Directors & Managers group meetings. It is a requirement for all team members to be briefed on the findings, where they are applicable, on 2016/17 audits.</p> <p>Where an Engagement Quality Control Reviewer (EQCR) is appointed for an audit, the EQCR has</p>

		<p>been briefed on the findings of the 2015/16 quality reviews.</p> <p>Where files were scored '0' in 2015-16 the Head of Public Sector Assurance will work with the Engagement Lead to ensure that processes designed to ensure that quality standards are met are engaged with, and responded to, in a timely and appropriate way e.g. Engagement Quality Control Review and Hot Reviews.</p>
VFM arrangements conclusions	<p>Ensure information from different sources is triangulated; and</p> <p>Ensuring clearer documentation on file of the consideration of risks and evidence.</p>	<p>Root Cause Analysis applies equally to VFM arrangements work.</p> <p>The detailed findings of the VFM reviews have been shared with the Partners, Directors and Managers involved in the assessment in 2016/17 through VFM planning briefings.</p> <p>Where files were scored '0' in 2015-16 a separate Engagement Quality Control Reviewer has been assigned to perform an independent review of the VFM conclusion work.</p>
Housing benefit	<p>Ensuring any qualification letter points contain the level of detail required by the Certification Instructions, completing extended testing where required; and</p> <p>Fully completing the HB COUNT workbooks.</p>	<p>We have refreshed internal HBCOUNT training materials to include an interactive webinar version, completion of which is mandatory for all staff completing or reviewing HBCOUNT work. Completion of the webinar module is monitored and recorded through our learning portal and is available 'on demand' after completion for later reference.</p>

		A sample of qualification letters will be reviewed for template compliance by the HBCOUNT technical lead prior to submission. The sample selection will take into account previous AQAR scores and the relative experience of the team performing the work.
Regulatory compliance	No issues	-

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