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SOUTHEND-ON-SEA BOROUGH COUNCIL

Audit Committee

Date: Wednesday, 28th April, 2021

Time: 6.30 pm

Place: Virtual Meeting via MS Teams

Contact: Colin Gamble (Head of Democratic Services)

Email: committeesection@southend.gov.uk

A G E N D A

- 1 Apologies for Absence**
- 2 Declarations of Interest**
- 3 Minutes of the Meeting held on Wednesday 13th January 2021**
- 4 Deloittes - Grants Report 2019/20** (Pages 5 - 34)
Report of Executive Director (Finance and Resources) attached
- 5 Deloittes - Annual Audit Plan 2020/21** (Pages 35 - 66)
Report of Executive Director (Finance and Resources) attached
- 6 CIPFA's Financial Management Code** (Pages 67 - 76)
Report of Executive Director (Finance and Resources) attached
- 7 Internal Audit Service Quarterly Performance Report** (Pages 77 - 106)
Report of Executive Director (Finance and Resources) attached
- 8 Counter Fraud and Investigation Team Quarterly Performance Report**
(Pages 107 - 122)
Report of Executive Director (Finance and Resources) attached
- 9 Internal Audit Planning for 2021/22 timetable** (Pages 123 - 126)
Report of Executive Director (Finance and Resources) attached
- 10 Information Item - CIPFA Audit Committee Update 34 (March 2021)**
(Pages 127 - 142)

Chair & Members:

Cllr P Collins (Chair), Cllr L Burton (Vice-Chair), Cllr B Ayling, Cllr T Cox, Cllr M Davidson, Cllr N Folkard, Cllr S Habermel, Cllr M Kelly, Cllr I Shead and K Pandya

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SOUTHEND-ON-SEA BOROUGH COUNCIL

Meeting of Audit Committee

Date: Wednesday, 13th January, 2021

Place: Virtual Meeting via MS Teams

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Present: Councillor P Collins (Chair)
Councillors L Burton (Vice-Chair), M Davidson, N Folkard,
S Habermel, M Kelly, I Shead and Mr K Pandya

In Attendance: J Chesterton, A Barnes, C Gamble, E Allen, R Gill, S Dutton, C
Fozzard and A Klienman (Deloitte).

Start/End Time: 6.30 - 7.37 pm

713 Apologies for Absence

Apologies for absence were received from Councillors Ayling and Cox.

714 Declarations of Interest

The following interest was declared at the meeting:

Councillor Davidson – Agenda Item 7 (Counter Fraud & Investigation Team Quarterly Performance Report) – Non-Pecuniary Interest: Non-executive Director of South Essex Homes.

715 Minutes of the Meeting held on 21st October 2020

Resolved:-

That the Minutes of the Meeting held on Wednesday, 21st October 2020 be confirmed as a correct record and signed.

716 Deloitte: Annual Audit Letter 2019/20

The Committee considered a report of the Executive Director (Finance and Resources) presenting the External Auditor's Annual Audit Letter for 2019/20. In addressing the Committee, the External Auditor provided an update on matters in connection with the letter.

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

Resolved:-

That the Annual Audit Letter for 2019/20, be approved.

717 Treasury Management Policy for 2021/22

The Committee considered a report of the Executive Director (Finance and Resources) outlining the treasury management policy for 2021/22 comprising the following documents:

- Treasury Management Policy Statement for 2021/22;
- Treasury Management Strategy for 2021/22;
- Annual Treasury Management Investment Strategy for 2021/22.

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

Resolved: -

That the Treasury Management Policy for 2021/22, be endorsed.

718 Internal Audit Service Quarterly Performance Report

The Committee considered a report of the Executive Director (Finance and Resources) providing an update on the progress made in delivering the Internal Audit Strategy for 2020/21. In noting that Appendix 2A (Audit Assurance and Themes) to the officer report had not been included in the committee papers, the Chair asked that it be circulated to all members of the Committee to afford them the opportunity to raise any questions (with the Head of Internal Audit) on the document after the meeting.

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

Resolved: -

That the progress made in delivering the 2020/21 Internal Audit Strategy, be noted.

719 Counter Fraud & Investigation Team Quarterly Performance Report

The Committee considered a report of the Executive Director (Finance and Resources) on the progress made in delivering the Counter Fraud Strategy and Work Programme for 2020/21.

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

In noting the successful outcomes of the fraud investigations, the Chair suggested that it would also be helpful for future reports to highlight the activities undertaken by the Team to prevent fraud.

Resolved: -

That the performance of the Counter Fraud and Investigation Team over the past three months, be noted.

720 Risk Management Update

The Committee considered a report of the Executive Director (Finance and Resources) providing an update on the delivery of the risk management policy statement and strategy.

Resolved: -

That the delivery of implementing the risk management policy statement and strategy, be noted.

721 CIPFA Audit Committee Update

The committee received and noted the following information item:

- CIPFA Audit Committee Update – Helping Audit Committees to be Effective.

Chair: _____

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Southend-on-Sea Borough Council

Agenda
Item No.

4

Report of the Executive Director (Finance and
Resources)

to

Audit Committee

on

28th April 2021

Report prepared by: Deloitte Reporting Accountant

Deloitte: Results of grant claim and assurance work for the Year ended 31 March 2020

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To present the results of the reporting accountant's work on the Housing Benefit Subsidy Claim assurance report and the Teachers' Pensions End of Year Certificate for the year ended 31 March 2020 to the Audit Committee.

2. Recommendation

- 2.1 The Audit Committee accepts the results of grant claim and assurance work for the year ended 31 March 2020.**

3. Background

- 3.1 The arrangements for providing assurance to government departments and agencies in respect of the Council's claim for subsidy towards expenditure, or certain information returns requiring external independent assurance, changed from 2018/19 and are no longer overseen by Public Sector Audit Appointments Limited (PSAA). As a result the government departments and agencies now produce standardised assurance procedures and the Council is required to appoint its own reporting accountants to undertake that work.
- 3.2 Southend have appointed Deloitte to undertake that work and this report details the outcome of their work.

4. Housing Benefit Subsidy Claim

- 4.1 The Department for Work and Pensions (DWP) require external independent assurance in respect of the Council's claim for subsidy towards expenditure that it has incurred on providing Housing Benefit to appropriate claimants in accordance with the DWP's scheme.

- 4.2 Due to the nature and volume of work the Council undertakes administering the DWP's Housing Benefit arrangements it is inevitable that errors will be made, and the detailed nature of the assurance procedures performed by the reporting accountants will identify some of these errors, as is reflected in the results of the work. However the DWP's arrangements recognise this and includes a threshold for errors made by the local authority that has an impact on the amount of subsidy that the Council receives. The Committee should note that the value of local authority errors reported in the return is below the DWP's threshold and therefore there has been no impact on the amount of subsidy received by the Council.
- 4.3 Following submission of Deloitte's report in March the DWP have yet to confirm that the position is finalised. However given the results of the work reported in the submission it is expected that there will be no change to the subsidy claimed for 2019/20 and confirmation from the DWP is expected in July.
- 4.4 A copy of Deloitte's report to the DWP is attached at Appendix 1 for the Committee's information.

5. Teachers' Pensions End of Year Certificate

- 5.1 The Teachers' Pensions Agency administer the pension arrangements for teachers and require external independent assurance in respect of the Council's deduction of pension contributions from teachers' salaries and the resultant contributions that are made by the Council to the Teachers' Pension Agency.
- 5.2 Deloitte have undertaken the agreed upon procedures required by the Teachers' Pension Agency and have identified no exceptions that need to be reported.
- 5.3 A copy of Deloitte's report to the Teachers' Pensions Agency is attached at Appendix 2 for the Committee's information.

6. Corporate Implications

6.1 Contribution to the Southend 2050 Road Map

All audit work provides assurance and identifies opportunities for improvements that contribute to the delivery of all Southend 2050 outcomes.

6.2 Financial Implications

Deloitte were appointed by the Council to undertake the DWP's assurance procedures following a competitive process, and the agreed cost for the work required is £27,000.

6.3 Legal Implications

The Council is required to provide independent assurance from a reporting accountant to the DWP and the Teachers Pensions Agency utilising their assurance procedures, to support the Council's information submitted to those departments. By considering this report, the Committee can satisfy itself that this requirement is being discharged.

6.4 People Implications

None.

6.5 Property Implications

None.

6.6 Consultation

None.

6.7 Equalities and Diversity Implications

None.

6.8 Risk Assessment

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

6.9 Value for Money

None.

6.10 Community Safety Implications

None.

6.11 Environmental Impact

None.

7. Background Papers

- National Audit Offices' Code of Audit Practice 2015
- DWP Housing Benefit (Subsidy) Assurance Process 2019/20

8. Appendices:

- Appendix 1: Deloitte's Housing Benefit Subsidy Claim assurance report for the Year ended 31 March 2020
- Appendix 2: Deloitte's Independent Reporting Accountants' agreed-upon procedures report in connection with Teachers' Pensions End Of Year Certificate return for the year ended 31 March 2020

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Housing Benefit (Subsidy) Assurance Process 2019/20 Module 6 DWP Reporting Framework Instruction (Applicable to England only) Reporting accountants' report for the Housing Benefit Subsidy claim form MPF720A, year ended 31 March 2020.

To: Housing Benefit Unit, Housing Delivery Division, DWP Business Finance & Housing Delivery Directorate, Room B120D, Warbreck House, Blackpool, Lancashire FY2 0UZ.

And: The Section 151 Officer of Southend on Sea Borough Council, Section 151 Officer.

This report is produced in accordance with the terms of our engagement letter with the Southend on Sea Borough Council dated **4th March 2021** and the standardised engagement terms in Appendix 2 of HBAP Module 1 2019/20 issued by the Department for Work and Pensions (DWP) for the purpose of reporting to the Section 151 Officer of Southend on Sea Borough Council and the DWP.

Our report is prepared solely for the confidential use of the Local Authority and the DWP and solely for the purpose of facilitating the claim for Housing Benefit Subsidy on form MPF720A dated **20th April 2020**.

This report should not be copied, referred to or disclosed, in whole or in part (save as otherwise permitted by the standardised engagement terms), without our prior written consent. Without assuming or accepting any responsibility or liability in respect of this report to any party other than the local authority and the DWP, we acknowledge that the local authority and/or the DWP may be required to disclose this report to parties demonstrating a statutory right to see it.

This report is designed to meet the agreed requirements of Local Authority and the DWP as described in the DWP HBAP reporting framework instruction 2019/20.

This report should not therefore be regarded as suitable to be used or relied by any other party for any purpose or in any context. Any party other than the Local Authority and the DWP which obtains access to this report or a copy and chooses to rely on this report (or any part of it) will do so entirely at its own risk. To the fullest extent permitted by law, we accept no responsibility or liability in respect of our work or this report to any other party and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by the reliance of anyone other than the addressees on our work or this report.

Respective responsibilities of the Local Authority and the reporting accountant

We conducted our engagement in accordance with HBAP Modules 1 and 6 2019/20 issued by the DWP, which highlight the terms under which DWP has agreed to engage with reporting accountants.

The Section 151 Officer of the Local Authority has responsibilities under the Income-related Benefits (Subsidy to Authorities) Order 1998. The section 151 Officer is also responsible for ensuring that the Local Authority maintains accounting records which disclose with reasonable accuracy, at any time, the financial position of the Local Authority. It is also the Section 151 Officer's responsibility to extract relevant financial information from the Local Authority's accounting records, obtain relevant information held by any officer of the Local Authority and complete the attached form MPF720A in accordance with the relevant framework set out by the DWP.

Our approach

For the purpose of the HBAP engagement we have been provided with a signed copy of form MPF720A 2019/20 dated **20th April 2020** by the Section 151 Officer. The Section 151 Officer remains solely responsible for the completion of the MPF720A and is the signatory on the local authority's certificate on claim form MPF720A.

Our engagement was carried out in accordance with the DWP reporting framework instruction which has been prepared in accordance with the *International Standard on Related (ISRS) 4400, Engagement to perform agreed-upon-procedures regarding financial information*. The purpose of the engagement is to perform the specific test requirements determined by the DWP on the defined sample basis as set out in HBAP Modules of the HBAP reporting framework instruction on the Local Authority's form MPF720A dated **20th April 2020** and to report the results of those procedures to the Local Authority and the DWP.

The results of these are reported on in appendices A and B.

Inherent limitations

The procedures specified in DWP's HBAP Reporting framework instruction does not constitute an examination made in accordance with generally accepted auditing standards, the objective of which would be the expression of assurance on the contents of the local authority's claim for Housing Benefit subsidy on form MPF720A. Accordingly, we do not express such assurance. Had we performed additional procedures or had we performed an audit or review of the local authority's claim for Housing Benefit subsidy on form MPF720A in accordance with generally accepted auditing or review standards, other matters might have come to our attention that would have been reported to you. This report relates only to the Local Authority's form MPF720A and does not extend to any financial statements of the Local Authority, taken as a whole.

This engagement will not be treated as having any effect on our separate duties and responsibilities as the external auditor of the Local Authority's financial statements. Our audit work on the financial statements of the Local Authority is carried out in accordance with our statutory obligations and is subject to separate terms and conditions. Our audit report on the Local Authority's financial statements is made solely to the Local Authority's members, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our audit work was

undertaken so that we might state to the Local Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Local Authority and the Local Authority's members, as a body, for our audit work, for our audit reports, or for the opinions we have formed in respect of that audit.

Summary of HBAP report

Initial Testing

In accordance with HBAP module 3, we completed an initial sample of cases for all general expenditure cells. Please refer to the Appendix where the results of our testing are described in further detail.

Cell 011: NHRA Rent Rebates

No claims were found to be in error.

Cell 055: HRA Rent Rebates

No claims were found to be in error.

Cell 094: Rent Allowances

No claims were found to be in error.

Completion of Modules

- Completion of Module 2
 - Testing of the module 2 was completed and no issues were identified
- Completion of module 5
 - We have completed the questionnaire for the appropriate software supplier and no issues were identified.

Summary of testing arising from Cumulative Assurance Knowledge and Experience

In line with the requirements of HBAP Modules we have undertaken CAKE testing based upon the preceding HBAP report. Where appropriate the Authority has completed testing of the sub populations for:

- Cell 061 HRA Rent Rebates - Standard Income Incorrectly Input/Assessed
- Cell 061 HRA Rent Rebates - Earned Income Incorrectly Input/Assessed

- Cell 113 Rent Allowances - Misclassification of LA Error Overpayments
- Cell 094 Rent Allowances - Earned Income Incorrectly Input/Assessed
- Cell 102 Rent Allowances - Expenditure under the Rent Officer Arrangements: Rent Incorrectly Input
- Cell 094 Rent Allowances - Standard Income Incorrectly Input/Assessed
- Cell 094 Rent Allowances - Non-dependant Income Incorrectly Input/Assessed

We have re-performed a sample of the Authority’s testing and confirm the tests we have carried out concur with the Authority’s results. These results are outlined in the appropriate appendix.

Summary paragraph/ending of letter

For the form MPF720A dated **20th April 2020** for the year ended 31 March 2020 we have completed the specific test requirements detailed in the DWP reporting framework instruction HBAP and have identified the following results set out in Appendix A and B).

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Office: **St. Albans**

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Deloitte LLP

Date: 26th March 2021

Appendix A Errors/Exceptions

Software reconciliation of benefit granted to benefit paid

The Authority's benefit administration system (Northgate) performs a reconciliation of benefit granted to benefit paid; discrepancies identified through this reconciliation process are reported in the resulting SUB057 and SUB061 reconciliation reports. The reconciliation performed for the 2019/20 subsidy year identified the following unresolved discrepancies:

SUB057

Payment Type	Claim Type	Posted	Recon	Subsidy	Discrepancy
CREDS	PTEN	43,483,438.98	-454,151.03	43,945,069.17	7,479.16
CREDS	LANHRA	7,456.27	-2,327.80	7,724.05	-2,060.02
RENTS	LAHRA	15,502,899.58	-128,498.91	15,615,496.10	-15,902.39
RENTS	LANHRA	779,992.55	-29,990.33	812,116.84	2,133.96

**The amounts in the "Subsidy" column of the SUB057 schedule below reconcile to the claim form as follows:*

Cell011 (£819,841) = CREDS LANHRA (£7,724) + RENTS LANHRA (£812,117)

Cell055 (£15,592,939) + Cell225b (£22,557) = £15,615,496

Cell094 (£43,934,818) + Cell225c (£10,251) = £43,945,069

Please note that this reconciliation was performed on the original claim form values, prior to the effect of any manual adjustments. The table shows that the LAHRA and LANHRA discrepancies have a negative net value of -15,828.45, therefore the LA is underclaiming subsidy on LAHRA and LANHRA claims as a result of these discrepancies (the LA is claiming on the basis of the lower amount). With regard to the £7,479.16 positive discrepancy on PTEN claims, we have confirmed that the LA has removed this amount from the final claim form through a manual adjustment, and therefore this amount is not being claimed and is absent from the subsidy form.

SUB061

	Reconcile Total	Paid Total	Discrepancy
Rebates	16,282,892.13	16,284,311.87	1,419.74
Creditors	43,490,895.25	43,490,895.54	0.29

Rent Rebates - Standard Income
Cell 061: Rent Rebates - Standard Income
Cell Total (061): **£15,468,118**
Cell Total - sub population: **£2,819,831**
Cell sub-population (# of cases): **725**
Headline Cell (055): **£15,592,939**

Testing performed in 2018/19 identified that the Local Authority had incorrectly input/assessed income resulting in over/underpayments of housing benefit. Our initial test of 20 cases identified no errors.

Given the nature of the population and the errors found, an additional sample of 40 cases where an assessment in the subsidy period was based upon income was tested. This additional testing identified:

- 6 cases where income was incorrectly input/assessed resulting in housing benefit being overpaid by a total of £2,951. Errors ranged in value from £1.79 to £2,842.
- 1 case where income was incorrectly input/assessed resulting in housing benefit being underpaid by a total of £4.77.
- 2 cases where income was incorrectly input/assessed resulting in no impact on housing benefit.

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 extrapolation purposes.

The result of the testing is set out in the table below:

Sample	Movement / brief note of error:	Original cell total: sub population	Sample error:	Sample value:		Percentage error rate (to two decimal places):	Cell adjustment:
		[CT]	[SE]	SV]		[SE/SV]	[SE/SV times CT]
Initial sample of 20 - 4 Rent Rebate Standard Income cases	Standard Income incorrectly input/assessed – Cell 061	£15,592,939	£0	£11,549			
Additional testing sample – 40 cases	Standard Income incorrectly input/assessed – Cell 061	£2,819,831	£2,951	£129,025			
Combined sample - 44 cases	Standard Income incorrectly input/assessed – Cell 061	£2,819,831	£2,951	£140,574		2.10%	£59,205
Corresponding adjustment:	Combined sample - Cell 061 is overstated						-£59,205
	Combined sample - Cell 065 is understated						£59,205
Total corresponding adjustment	Total amendment of Cell 061 and 065						£59,205

Rent Rebates - Earned Income

Cell 061: Rent Rebates - Earned Income

Cell Total (061): **£15,468,118**

Cell Total - sub population: **£777,043**

Cell sub-population (# of cases): **283**

Headline Cell (055): **£15,592,939**

Testing performed in 2018/19 identified that the Local Authority had incorrectly input/assessed income resulting in over/underpayments of housing benefit. Our initial test of 20 cases identified no errors.

Given the nature of the population and the errors found, an additional sample of 40 cases where an assessment in the subsidy period was based upon income was tested. This additional testing identified:

- 1 case where income was incorrectly input/assessed resulting in housing benefit being overpaid by a total of £0.48.
- 1 case where income was incorrectly input/assessed resulting in housing benefit being underpaid by £1.10.

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 extrapolation purposes.

The result of the testing is set out in the table below:

Sample	Movement / brief note of error:	Original cell total: sub population	Sample error:	Sample value:		Percentage error rate (to four decimal places):	Cell adjustment:
		[CT]	[SE]	SV]		[SE/SV]	[SE/SV times CT]
Initial sample of 20 - 3 Rent Rebate Earned Income cases	Earned income incorrectly input/assessed – Cell 061	£15,592,939	£0	£10,374			
Additional testing sample – 40 cases	Earned income incorrectly input/assessed – Cell 061	£777,043	£0.48	£107,064			
Combined sample - 43 cases	Earned income incorrectly input/assessed – Cell 061	£777,043	£0.48	£117,438		0.0004%	£3
Corresponding adjustment:	Combined sample - Cell 061 is overstated						-£3
	Combined sample - Cell 065 is understated						£3
Total corresponding adjustment	Total amendment of Cell 061 and 065						£3

Cell 113: Rent Allowances - LA Error & Administrative Delay Overpayments

Cell Total (113): **£44,729**

Cell Total - sub population: **£44,729**

Cell sub-population (# of cases): **400**

Headline Cell (094): **£43,934,818**

Testing performed in 2018/19 identified that the Local Authority had incorrectly classified claims as LA Error Overpayment when they should have been classified as Eligible Overpayment. Our initial test of 20 cases identified no errors.

Given the nature of the population and the errors identified, an additional sample of 40 cases was selected from cell 113 for testing. This additional testing identified:

- 5 cases classified as LA Error Overpayment which should have been classified as Eligible Overpayment. The total error was £547 and errors ranged in value from £0.18 to £249.88.
- 1 case classified as LA Error Overpayment which should have been classified as DWP Error Overpayment Recovered. This is a misclassification between two cells of the same subsidy value (nil), therefore there is and *could be* no impact on subsidy and further testing was not required.

The result of the testing is set out in the table below:

Sample	Movement / brief note of error:	Original cell total: sub population	Sample error:	Sample value:		Percentage error rate (to two decimal places):	Cell adjustment:
		[CT]	[SE]	SV]		[SE/SV]	[SE/SV times CT]
Initial sample of 20 - no Rent Allowance misclassification of LA error/admin delay cases	Misclassification of LA error/admin delay – Cell 113 is overstated and Cell 114 is understated	£44,729	£0	£0			
Additional testing sample – 40 cases	Misclassification of LA error/admin delay – Cell 113 is overstated and Cell 114 is understated	£44,729	£547	£8,049			
Combined sample – 40 cases	Misclassification of LA error/admin delay – Cell 113 is overstated and Cell 114 is understated	£44,729	£547	£8,049		6.79%	£3,037
Corresponding adjustment:	Combined sample - Cell 113 is overstated						-£3,037
Corresponding adjustment:	Combined sample - Cell 114 is understated						£3,037
Total corresponding adjustment	Total amendment of Cells 113 and 114						£3,037

Rent Allowances - Earned Income

Cell 094: Rent Allowances - Earned Income

Cell Total (094): **£43,934,818**

Cell Total - sub population: **£10,250,916**

Cell sub-population (# of cases): **2,039**

Headline Cell (094): **£43,934,818**

Testing performed in 2018/19 identified that the Local Authority had incorrectly input/assessed income resulting in over/underpayments of benefit. Our initial test of 20 cases identified no errors.

Given the nature of the population and the errors identified, an additional sample of 40 cases where an assessment in the subsidy period was based upon income was tested. This additional testing identified:

- 3 cases where income was incorrectly input/assessed resulting in housing benefit being underpaid by a total of £472.95. The errors ranged in value from £0.96 to £396.46.
- 1 case where income was incorrectly input/assessed resulting in housing benefit being overpaid by £0.03.

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 extrapolation purposes.

The result of the testing is set out in the table below:

Sample	Movement / brief note of error:	Original cell total: sub population	Sample error:	Sample value:		Percentage error rate (to five decimal places):	Cell adjustment:
		[CT]	[SE]	SV]		[SE/SV]	[SE/SV times CT]
Initial sample of 20 - 3 Rent Allowance Earned Income	Earned Income incorrectly input/assessed – Cell 094	£43,934,818	£0	£20,591			
Additional testing sample – 40 cases	Earned Income incorrectly input/assessed – Cell 094	£10,250,916	£0.03	£202,596			
Combined sample - 43 cases	Earned Income incorrectly input/assessed – Cell 094	£10,250,916	£0.03	£223,187		0.00001%	£1
Corresponding adjustment:	Combined sample - Cell 103 is overstated						-£1
Corresponding adjustment:	Combined sample - Cell 113 is understated						£1
Total corresponding adjustment	Total amendment of Cell 103 and 113						£1

Rent Allowances - Expenditure under the Rent Officer Arrangements - Rent Incorrectly Input

Cell 102: Rent Allowances - Expenditure under the Rent Officer Arrangements

Cell Total (102): **£12,222,789**

Cell Total - sub population: **£12,222,789**

Cell sub-population (# of cases): **2,392**

Headline Cell (094): **£43,934,818**

Testing performed in 2018/19 identified that the Local Authority had incorrectly input rent resulting in over/underpayments of benefit. Our initial test of 20 cases identified no errors.

Given the nature of the population and the errors found, an additional sample of 40 cases was selected from cell 102 for testing. The additional testing identified 1 case where rent was incorrectly input resulting in housing benefit being overpaid by a total of £14.70.

The result of the testing is set out in the table below:

Sample	Movement / brief note of error:	Original cell total: sub population	Sample error:	Sample value:		Percentage error rate (to three decimal places):	Cell adjustment:
		[CT]	[SE]	[SV]		[SE/SV]	[SE/SV times CT]
Initial sample of 20 - 7 Rent Allowance Cell 102 cases	Rent incorrectly input	£12,222,789	£0	£36,603			
Additional testing sample - 40 cases	Rent incorrectly input – Cell 102 is overstated and cell 113 is understated	£12,222,789	£14.70	£231,836			
Combined sample - 47 cases	Rent incorrectly input – Cell 102 is overstated and cell 113 is understated	£12,222,789	£14.70	£270,439		0.005%	£611
Corresponding adjustment:	Combined sample - Cell 102 is overstated						-£611
	Combined sample - Cell 113 is understated						£611
Total corresponding adjustment	Total amendment of Cells 102 and 113						£611

Cell 094: Rent Allowances - Non-Dependant Income

Cell Total (094): **£43,934,818**

Cell Total - sub population: **£4,166,828**

Cell sub-population (# of cases): **719**

Headline Cell (094): **£43,934,818**

Testing performed in 2018/19 identified that the Local Authority had incorrectly input/assessed non-dependant income resulting in over/underpayments of benefit. Our initial test of 20 cases identified no errors.

Given the nature of the population and the errors found, an additional sample of 40 cases where an assessment in the subsidy period was based upon non-dependant income was tested. This additional testing identified:

- 5 cases where non-dependant income had been incorrectly input/assessed resulting in no effect on housing benefit.
- 1 case where income was incorrectly input/assessed resulting in housing benefit being underpaid by a total of £1,058.79.

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 extrapolation purposes.

Rent Allowances - Standard Income

Cell 094: Rent Allowances - Standard Income

Cell Total (094): £43,934,818

Cell Total - sub population: £6,798,598

Cell sub-population (# of cases): 1,267

Headline Cell (094): £43,934,818

Testing performed in 2018/19 identified that the Local Authority had incorrectly input/assessed income resulting in over/underpayments of benefit. Our initial test of 20 cases identified no errors.

Given the nature of the population and the errors identified, an additional sample of 40 cases where an assessment in the subsidy period was based upon income was tested. This additional testing identified:

- 2 cases where income was incorrectly input/assessed resulting in housing benefit being underpaid by a total of £64.66. The errors ranged in value from £10.92 to £53.74.
- 4 cases where income was incorrectly input/assessed resulting in housing benefit being overpaid by £23.39. The errors ranged in value from £0.12 to £10.35.
- 4 Cases where income was incorrectly input/assessed resulting in no impact on housing benefit.

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 extrapolation purposes.

The result of the testing is set out in the table below:

Sample	Movement / brief note of error:	Original cell total: sub population	Sample error:	Sample value:		Percentage error rate (to two decimal places):	Cell adjustment:
		[CT]	[SE]	SV]		[SE/SV]	[SE/SV times CT]
Initial sample of 20 - 4 Rent Allowance Standard Income cases	Standard Income incorrectly input/assessed – Cell 094	£43,934,818	£0	£22,724			
Additional testing sample – 40 cases	Standard Income incorrectly input/assessed – Cell 094	£6,798,598	£23	£236,640			
Combined sample – 44 cases	Standard Income incorrectly input/assessed – Cell 094	£6,798,598	£23	£258,914		0.01%	£614
Corresponding adjustment:	Combined sample - Cell 095 is overstated						-£150
	Combined sample - Cell 099 is overstated						-£275
	Combined sample - Cell 103 is overstated						-£189
	Combined sample - Cell 113 is understated						£614
Total corresponding adjustment	Total amendment of Cells 095/099/103 and 113						£614

Appendix B: Observations

Manual Adjustments to Claim Form

Our audit was performed on the original claim form which did not include a number of manual adjustments performed by the LA which are reflected in the final claim form. It has been our experience that adjustments of this nature are performed yearly by the LA in order to process subsidy amounts due to claims involving entitlement to housing benefit on two homes and claims with underlying entitlement; these amounts cannot be processed through the Northgate benefits system and therefore are passed manually in order for the LA to claim them.

As our audit procedures are limited to those defined to us by the DWP in our instructions, and these do not include procedures that are applicable to such adjustments, we have instead inquired into and obtained an understanding of these adjustments and can report that nothing has come to our attention that would suggest they are improper. In the 19/20 subsidy year, these adjustments amount to a net £35,909.60 increase in subsidy on the final claim form.

Reconciliation Cells Variance

We have noted the following variance when performing a reconciliation check on the final adjusted claim form:

Recon Cell	Value	Headline Cell	Value	Variance
130	£43,957,260	94	£43,954,475	£2,785

We have confirmed that the variance is due to a manual adjustment made to cell 121 for -£2,785; the variance arose due to cell 121 being a prior-year cell. This adjustment was included in the adjustments described in the observation above ("Manual Adjustments to Claim Form").

Appendix C: Amendments to the claim form MPF720A

The following cells have been amended by the Local Authority as described in our observation "Manual Adjustments to Claim Form" in Appendix B above:

Cell	Initial Value	Adjustment due to payment on 2 homes	Adjustment due to underlying entitlement	Adjustment to remove Sub051 discrepancy (see top of Appendix A)	Amended Value
55	15,592,939	2,392			15,595,331
61	15,468,118	3,584			15,471,702
65	16,065	-420			15,645
66	9,859	-2			9,857
67	87,315	-770			86,545
94	43,934,818	27,996		-8,339	43,954,475
96	853,073	6,205			859,278
98	1,500,861	3,384			1,504,245
99	3,762,269	944	245		3,763,458
102	12,222,789	16,230	3,530		12,242,549
103	23,940,023	4,960	3,520	-8,339	23,940,164
113	44,729	-1,349			43,380
114	522,631	-2,379	-4,509		515,743
121	540,000	-83	-2,785		537,132

Teachers' Pensions,

Unit 11b,
Lingfield Point,
Darlington, DL1 1AX
1 December 2020

Independent Reporting Accountants' agreed-upon procedures report in connection with Teachers' Pensions EOYC return for the year ended 31 March 2020

To:

Teachers' Pensions, Unit 11b, Lingfield Point, Darlington, DL1 1AX

The Responsible Finance Officer- Section 151 Officer Southend on Sea Borough Council

Dear Sirs

Southend-on-Sea Borough Council - Reporting on agreed upon procedures in respect of Teachers' Pensions End of Year Certificate for the year ended 31 March 2020

This report has been produced in accordance with the terms of our engagement letter dated 30 November 2020 ("the Engagement Letter") and in accordance with the International Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" as published by IAASB.

The procedures were performed solely for the purpose of assisting the governors of Southend-on-Sea Borough Council fulfil their responsibilities, under the Teachers' Pensions Regulations 2010 (SI2010/990) and The Teachers' Pension Scheme Regulations 2014 (SI 2014/512), for preparing the End of Year Certificate (EOYC) for the year end 31 March 2020. The EOYC must be accompanied by a reporting accountants' report prepared following the performance of procedures set out in the guidance note "Reporting Accountants Guidance TP05 FY19/20 Version 1" issued by Teachers' Pensions ("The guidance"). We attach a copy of the EOYC prepared and submitted by management. Where appropriate, this copy identifies errors corrected by management. Management are responsible for the preparation and submission of the EOYC and for all corrections.

Report of factual findings and exceptions

We have no findings to report.

We have not subjected the information contained in our report or the appendices (including explanations and representations received from the Responsible Finance Officer and reported to you) to checking or verification procedures except to the extent expressly stated. This engagement

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does not constitute an audit or a review and, as such, no assurance is expressed. Had we performed additional procedures, an audit or a review, other matters might have come to light that would have been reported.

You were responsible for determining whether the agreed-upon procedures we performed were sufficient for your purposes and the purposes of Teachers' Pensions having due regard to the guidance issued by TP. We cannot, and do not, make any representations regarding the sufficiency of these procedures for your purposes or for the purposes of Teachers' Pensions.

Our report is prepared solely for the confidential use of Southend on Sea Borough Council and for Teachers' Pensions. Our report must not be used for any purpose other than for which it was prepared or be reproduced or referred to in any other document or made available to any third party without the written permission of Deloitte LLP. We accept no liability to any other party who is shown or gains access to this report.

Our audit work as the statutory auditors of the annual financial statements of Southend-on-Sea Borough Council is carried out in accordance with our statutory obligations and is subject to separate terms and conditions. This engagement will not be treated as having any effect on our separate duties and responsibilities as Southend-on-Sea Borough Council's external auditors. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Southend-on-Sea Borough Council and Southend-on-Sea Borough Council's members as a body, for our audit work on the statutory financial statements, for our audit reports, or for the opinions we have formed.

Yours faithfully



Deloitte LLP
St Albans
Date: 1 December 2020

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APPENDIX I - AGREED UPON PROCEDURES AND FINDINGS MATRIX

This is an illustrative schedule to attach to the report. It is the Reporting Accountants responsibility to complete this appendix, checking against the actual tests completed. In preparing this appendix, Reporting Accountants need only provide the latter two columns if there are exceptions to report. Where no exceptions were identified it should be noted as “No exceptions noted”.

	Agreed Upon Procedures	Details of any exceptions and errors identified¹	Responsible Finance Officer explanation for any exceptions and/or errors (including non-correction of errors)² and formal management representations where appropriate to be attached.
1	We have checked that all relevant parts of the return been completed (in pounds and pence) and that the employer’s certificate bears the signature of the Responsible Finance Officer?	No exceptions noted	Not applicable

2	<p>We have checked that all arithmetic on the return is correct including:</p> <ul style="list-style-type: none"> (a) that the totals in section 3 are arithmetically correct; (b) that the total in section 3 column 1 agrees with the entry in section 1 (box 1); (c) that the total in section 3 column 2 agrees with the entry in box 2a(iv); (d) that the total in section 3 column 3 agree with the entry in box 2a(v); and (e) has the overall balance in box 2e been calculated correctly? 	No exceptions noted	Not applicable
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1 including whether errors have been corrected in the marked up return attached as appendix II

2 Including explanations for non-correction of errors

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3	We have checked that the breakdown of contributions in each tier casts to the percentage rate of the contributory salary.	No exceptions noted	Not applicable
4	We have checked that entries on the return and supporting working papers agree with the employer's payroll records, including amendments, and, where necessary, information from other payroll providers, for the return period.	No exceptions noted	Not applicable

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5	We have checked that contributions paid in box 2d provided by TP agree with the employer's accounts?	No exceptions noted	Not applicable
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6	<p>For a sample of 20 teachers paid by the employer payroll and (where available) third party payrolls, we have checked that:</p> <ul style="list-style-type: none"> (a) the status of the teacher to the employer portal; (b) contributory salaries have been agreed to payroll records and included in section 3 column 1 in the correct tier; (c) teachers' contributions have been deducted at the correct tier rate and included in section 3 column 2 in the correct tier; and (d) employer's contributions have been calculated correctly and included in section 3 column 3. 	No exceptions noted	Not applicable
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<p>7</p>	<p>[For the sample of teachers selected for test [6]] or [for two teachers who fall into one of the following categories] we have checked that:</p> <ul style="list-style-type: none"> (a) Career average flexibilities payments have been deducted correctly and included in box 2a(i); (b) additional pension payments have been deducted correctly and included in box 2a(ii); (c) additional contributions have been deducted correctly and included in box 2a(iii) (d) deductions and interest for teachers with EFE elections are calculated correctly and included in box 2b(i) (e) Preston contributions have been deducted correctly and included in box 2b(ii) (f) TR22 contributions have been deducted correctly and included in box 2b(iii) 	<p>No exceptions noted</p>	<p>Not applicable</p>
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8	We have checked that all short term pension payments made by the employer in box 2c(i) for teachers who have died before February 2016 agree to correspondence from Teachers' Pensions?	No exceptions noted	Not applicable
9	We have checked [all][10] prior year refunds in box 2c(ii) to correspondence from Teachers' Pensions?	No exceptions noted	Not applicable
10	For all management explanations related to the exceptions and errors noted, we have obtained representations from the Responsible Financial Officer	No exceptions noted	Not applicable

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Southend-on-Sea Borough Council

Agenda
Item No.

5

Report of the Executive Director (Finance and
Resources)

to

Audit Committee

on

28th April 2021

Report prepared by: Deloitte External Auditor

**Deloitte: Audit planning report to the Audit Committee,
Audit for the year ending 31 March 2021**

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To present the External Auditor's Audit planning report for 2020/21 to the Audit Committee.

2. Recommendation

- 2.1 The Committee notes Deloitte's Audit planning report for 2020/21.**

3. Background

- 3.1 As required by the National Audit Office's Code of Audit Practice (the Code), the external auditor must produce an audit planning document. This should set out how the auditors intend to carry out their responsibilities in light of their assessment of risk.
- 3.2 The report provides an update on the audit planning work performed to date and an update on the Covid-19 situation both broadly, and more specifically, as it relates to the local government and Southend Council contexts.
- 3.3 A senior representative of Deloitte (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 the Southend 2050 Road Map

Audit work provides assurance and identifies opportunities for improvements that contribute to the delivery of all Southend 2050 outcomes.

- 4.2 Financial Implications

The prescribed requirements of what needs to be undertaken by the external auditor is defined by the National Audit Office. The plan and fees proposed reflect the application of these requirements to this Council based upon an assessment of risk which is set out in the Audit Plan for 2020/21.

The cost to the Council of external audit for 2020/21 is planned to be £165,000 for the audit work delivered under the NAO's Code of Audit Practice and other assurance services.

4.3 Legal Implications

The Council is required to have an external audit of its activities that complies with the requirements of the Code. By considering this report, the Committee can satisfy itself that this requirement is being discharged.

4.4 People Implications

None

4.5 Property Implications

None

4.6 Consultation

The planned audit work has been discussed and agreed with the Executive Director (Finance and Resources).

4.7 Equalities Impact Assessment

None

4.8 Risk Assessment

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

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

4.9 Value for Money

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

4.10 Community Safety Implications

None

4.11 Environmental Impact

None

5. Background Papers

- The National Audit Office's Code of Audit Practice 2020
- Public Sector Appointments Limited scale fees for local government bodies 2020/21

6. Appendix:

- Deloitte's Audit Planning Report to the Audit Committee for the year ending 31 March 2021



Southend-on-Sea Borough Council

Audit planning report to the Audit Committee for the year ended 31 March 2021

Issued 19 April 2021 for the meeting on 28 April 2021

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01 Planning report

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Introduction

The key messages in this report:

We have pleasure in presenting our planning report to the Audit Committee for the 2020/21 audit. We would like to draw your attention to the key messages of this paper:

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the statement of accounts.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

Overall introduction and setting the scope of our work

Covid-19 continues to be hugely impactful for the audit of local authorities. At one level, there has been significant upheaval to Council finances through 20/21 as bodies have had to adjust spend to respond to the pandemic and as additional funding initiatives and grants have been announced. This will require additional audit work to risk assess and test these new areas of income and expenditure, many of which diverge from original budgets. At another level, our ways of working and conducting an audit continue to be impacted. We anticipate again delivering the audit remotely using online tools to facilitate collaboration. We include additional commentary on the impact of Covid-19 later in this report.

Due to the impact of the pandemic, in the prior year, the deadline for submission of audited Council accounts was extended to 30 November 2020. Southend had the accounts signed on 20 October 2020. For 20/21 the current provisional deadline is set as 30 September 2021 (although this may still be subject to further extension) and it is not expected to return to the original 31 July deadline in the near future.

At the same time, this is a year of substantial change to our responsibilities in relation to Value for Money (“VFM”) with the roll out of AGN 03 by the National Audit Office. There is more detail on this overleaf and later in this paper.

Aside from the issues noted above, our audit work will continue to be carried out in accordance with the requirements of the Code of Audit Practice (‘the Code’) and supporting guidance published by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General.

The Code sets the overall scope of the audit which includes an audit of the accounts of the Council and work to satisfy ourselves that the Council has made proper arrangements to secure value for money (VFM) in its use of resources.

Our responsibilities as auditor, and the responsibilities of the Council, are set out in “*PSAA Statement of responsibilities of auditors and audited bodies: Principal Local Authorities and Police Bodies*”, published by Public Sector Audit Appointments Limited.

Areas of focus in our work on the accounts

At the date of this report, our planning, risk assessment and fraud enquiry procedures are in progress. We have met with key officers, reviewed financial information and progressed our interim audit. Based on procedures performed to date, we summarise overleaf the areas of significant audit risk we have so far identified, these may be subject to change following completion of our remaining planning work. We will update the Audit Committee on any changes to our risk assessment at the next Audit Committee meeting.

**Areas of focus
in our work on
the accounts
continued**

- Valuation of properties – there is significant judgement over subjective inputs to the valuation. We note that the Council’s housing stock is in scope for full revaluation this year and have already engaged our Council Dwelling specialist within Deloitte Real Estate to commence our work in this area. Due to the use of beacon values and the substantial value of the Council’s housing stock – carrying value of £375m as at 31 March 2020 – this will be significant risk for our audit. We note that RICs standards no longer require material uncertainties due to Covid-19 in relation to property valuation to be disclosed .
- Capitalisation of expenditure – there is judgement over the appropriate classification of spend as capital and not revenue. This can lead to in-year expenditure being depreciated over time instead of being recognised and expensed fully. This provides an incentive to inappropriately classify spend as capital which does not meet the accounting criteria for classification as such.
- Management override of controls – auditing standards presume there is a risk that the accounts may be fraudulently misstated by management overriding controls. Key areas of focus are: bias in the preparation of accounting estimates; inappropriate journal entries; and transactions which have no economic substance.

Auditing standards also presume there is a risk of fraud in revenue recognition. Following an update to our analysis of the Council’s income streams, we plan to continue to rebut this presumption. The key factors considered include: the amount of annual income from each source; the transaction size; the extent of any estimates; and the complexity of the recognition principles. Our conclusion is the same as that reached last year.

**Areas of focus
in our work on
VFM**

of

The National Audit Office has issued a revised Code of Audit Practice for 2020/21, and a revised approach to “Value for Money” work under Audit Guidance Note 03 (“AGN03”). AGN03 adds a regime of narrative reporting to our work on value for money and leads to a new, publically issued “Annual Auditor’s Report” issued at the same time as the audit opinion. The Code and supporting auditor guidance note require us to perform a risk assessment and to carry out further work where we identify a significant risk.

Our risk assessment to determine whether there are any significant risks is at an early stage. We have received a summary back from officers reflecting their view on the arrangements in place. We expect to carry out the majority of our risk assessment procedures throughout April and May 2021. We will then perform update procedures in June, in particular to update for the findings of internal audit work completed in the latter part of the year, outturn performance against financial and operational metrics including the Medium Term Financial Strategy and the outcome of any findings from the work of regulators. Please note, we issued an unqualified VFM conclusion in both 2019/20 and 2018/19.

**Other
regulatory
changes**

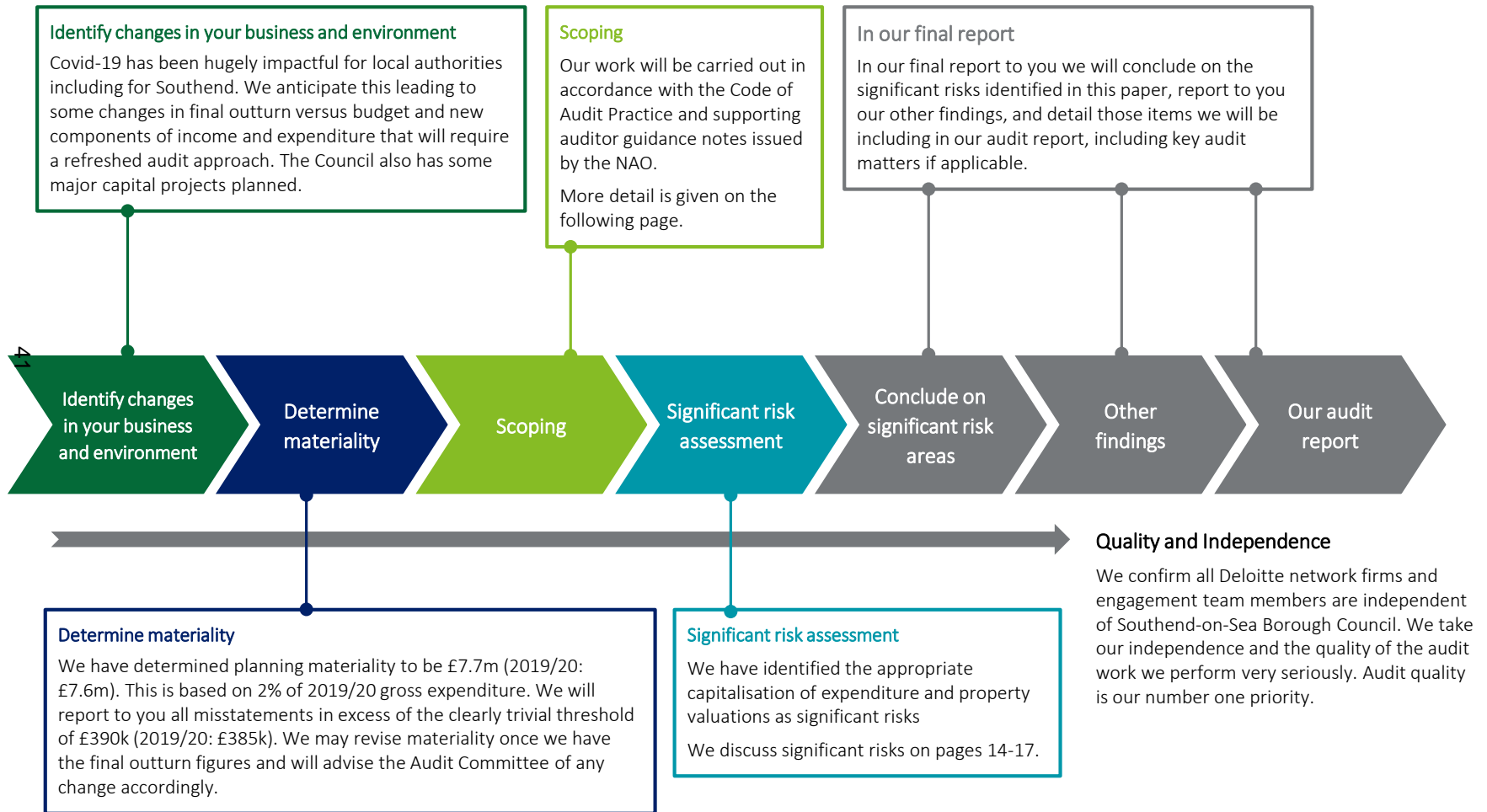
The audit approach also reflects changes to International Standards on Auditing (UK) related to management estimates (ISA (UK) 540) and to going concern (ISA (UK) 570) and effective for this year. Also related to going concern, there is a revised Practice Note 10 effective for this year. This guidance assists auditors in their assessment of going concern on audits of financial statements in the Public Sector. IFRS 16, Leases, will apply from 1 April 2022, and will require disclosure in the 2020/21 financial statements of the expected impact on transition.

**Housing
Benefit
Assurance
Procedures**

We reported to DWP in regard to the 2019/20 Housing Benefit Claim on 29 March 2021 having been granted a deadline extension from 31 January 2021. Our report including findings has been included with the papers distributed for this Audit Committee. This was our final year performing this work for the Council.

Our audit of the statement of accounts explained

We tailor our audit to your Authority



Scope of work and approach

We have the following areas of responsibility under the Code

Opinion on the Council's financial statements

We will conduct our audit in accordance with the Code of Audit Practice and supporting guidance issued by the National Audit Office ("NAO") and International Standards on Auditing (UK) ("ISA (UK)") as adopted by the UK Auditing Practices Board ("APB").

We report on whether the financial statements:

- Give a true and fair view of the financial position and income and expenditure
- Are prepared properly in accordance with the Code of Practice on Local Authority Accounting ("the Code").

Opinion on other matters

We are required to report on whether other information published with the audited financial statements is consistent with the financial statements.

Other information includes information included in the statement of accounts, in particular the Narrative Report. It also includes the Annual Governance Statement which the Council is required to publish alongside the Statement of Accounts.

In reading the information given with the financial statements, we take into account our knowledge of the Council, including that gained through work in relation to the body's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources.

Whole Government Accounts

We are required to issue a separate assurance report on the Council's separate return required to facilitate the preparation of the Whole of Government Accounts. The impacts of Covid-19 on this process are not yet clear although the overall view seems to be this consolidation is required. Our work on the return is carried out in accordance with instructions issued by the NAO and typically focuses on testing the consistency of the return with the Council's financial statements, together with the validity, accuracy and completeness of additional information about the Council's transaction and balances with other bodies consolidated within the Whole of Government Accounts. We are also typically asked to report to the NAO on key findings from our audit of the accounts. The NAO has not yet issued its instructions for the current year.

Value for Money conclusion

We are required to consider the arrangements that the Council has made securing financial resilience and economy, efficiency and effectiveness in its use of resources, if we identify any significant weaknesses to make recommendations, and to provide a narrative commentary on arrangements.

To perform this work, we are required to:

- Obtain an understanding of the Council's arrangements sufficient to support our risk assessment and commentary;
- Assess whether there are risks of a significant weakness in the Council's arrangements, and perform additional procedures if a risk is identified. If a significant weakness is identified, we report this and an accompanying recommendation;
- Report in our audit opinion if we have reported any significant weaknesses.
- Issue a narrative commentary in our Annual Auditor's Report on the arrangements in place.

This will require a minimum level of work at every local public body, with additional risk based work where relevant.

Our responsibilities as auditor, and the responsibilities of the Council, are set out in "PSAA Statement of responsibilities of auditors and audited bodies: Principal Local Authorities and Police Bodies", published by PSAA

Scope of work and approach

Our approach

Liaison with internal audit

The Auditing Standards Board's version of ISA (UK) 610 "Using the work of internal auditors" prohibits use of internal audit to provide "direct assistance" to the audit. Our approach to the use of the work of Internal Audit has been designed to be compatible with these requirements.

We plan to meet with the Head of Internal Audit to discuss the internal audit work performed and we will review the internal audit reports issued in the period. We will consider the findings from their work and where significant control weaknesses are identified, we consider the impact on the scope of our own work.

Approach to controls testing

For controls considered to be 'relevant to the audit', our work involves evaluating the design of these controls and determining whether they have been implemented ("D & I").

We do not expect to place reliance on the operating effectiveness of controls in the current year.

Our assessment of the internal control environment has not been concluded. We will report to the Audit Committee any findings arising from further procedures.

We will consider any major changes to IT systems in year. This forms part of our ongoing risk assessment of IT systems and will involve Deloitte IT specialists as required.

Promoting high quality reporting to stakeholders

We view the audit role as going beyond reactively checking compliance with requirements: we seek to provide advice on evolving good practice to promote high quality reporting.

We recommend the Council completes the CIPFA Code checklist during drafting of their financial statements.

We would welcome early discussion on the planned format of the financial statements, and whether there is scope for simplifying or streamlining disclosures, as well as the opportunity to review a skeleton set of financial statements and an early draft of the annual report ahead of the typical reporting timetable to feedback any comments to management.

Covid-19 pandemic and its impact on our audit

Covid-19 pandemic and its impact on our audit

Requirements

The Covid-19 pandemic had a significant impact on the 2019/20 audit process, despite impacting relatively late in the year. We would expect there to be further guidance on accounting and disclosure requirements for 2020/21, where the impact has been much more extensive on all organisations.

A key element of this will be communicating risks and governance impacts in narrative reporting, consistent with the Financial Reporting Council's guidance to organisations on the importance of communicating the impact of Covid-19 and related uncertainties, including their impact on resilience and going concern assessments.

Entity-specific explanations of the current and expected effects of Covid-19 and the Council's plans to mitigate those effects should be included in the narrative reporting (including where relevant the Annual Governance Statement), including in the discussion on Principal Risks and Uncertainties impacting an organisation.

Actions

While there may be greater clarity compared to prior year, we would expect organisations as part of their reporting to conduct a thorough assessment of the current and potential future effects of the Covid-19 pandemic including:

- Consideration of the impact across the Council's operations, including on its income streams, supply chains and cost base, and the consequent impacts on financial position;
- The scenarios assumed in making forecasts and on the sensitivities arising should other potential scenarios materialise (including different funding scenarios); and
- The effect of events after the reporting date, including the nature of non-adjusting events and an estimate of their financial effect, where possible.

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Impact on the Council	Impact on annual report and financial statements	Impact on our audit
<p>We consider the key impacts on the authority such as:</p> <ul style="list-style-type: none"> • Interruptions to service provision. • Unavailability of personnel. • Reductions in certain income streams such as parking and leisure fees and charges. • Increases in income from central government funding. • The closure of facilities and premises. 	<p>We consider the impact of the outbreak on the annual report and financial statements, including:</p> <ul style="list-style-type: none"> • Principal risk disclosures • Impact on property, plant and equipment • Valuation of commercial or investment properties • Impact on pension fund investment measurement and impairment • Financial sustainability assessment • Events after the reporting period and relevant disclosures • Bad debts provision policy • Narrative reporting • Impairment of non-current assets • Allowance for expected credit losses 	<p>We consider the impact on the audit including:</p> <ul style="list-style-type: none"> • Resource planning • Timetable of the audit • Impact on our risk assessment • Logistics including meetings with entity personnel.

Covid-19 pandemic and its impact on our audit

Impact on annual report and financial statements

Impact on property, plant and equipment

The Royal Institute of Chartered Surveyors issued a practice alert, as a result of which valuers identified a material valuation uncertainty at 31 March 2020 for most types of property valuation. This practice alert was withdrawn in September 2020. Valuation reports at March 2020 typically identified a need to consider potential impairments in future periods, and this year's valuations may reflect more significant movements.

The Council will need to consider the approach to its valuation (including any changes as a result of the pandemic). The Council will also need to consider whether there are any indications of impairment of assets requiring adjustment at 31 March 2021.

Expected credit losses

The Council will need to consider the level of provision required for expected credit losses under IFRS 9 and whether Covid-19 has had any impact on this.

Accounting for Covid-19 response measures

One of the main elements of the response to Covid-19 which will have specific accounting considerations are the Covid-19 grants that the Council has received. CIPFA have not yet published guidance on accounting for Covid-19 grant income, and specific consideration will need to be given as to whether the Council is acting as the principal or agent in relation to the various grants.

The Council has prepared an assessment of Covid-19 grant income and the proposed treatment which we will review in due course.

Narrative and other reporting issues

The following areas will need to be considered by the Council:

- Narrative reporting as well as the usual reporting requirements will need to cover the effects of the pandemic on services, operations, performance, strategic direction, resources and financial sustainability.
- Reporting judgements and estimation uncertainty, the Council will need to report the impact on material transactions including decisions made on the measurements of assets and liabilities.

Events after the reporting period and relevant disclosures

Events are likely to continue to move swiftly, and the Council will need to consider the events after the Reporting Period and whether these events will be adjusting or non-adjusting and make decisions on a transaction by transaction basis.

Materiality

Our approach to materiality

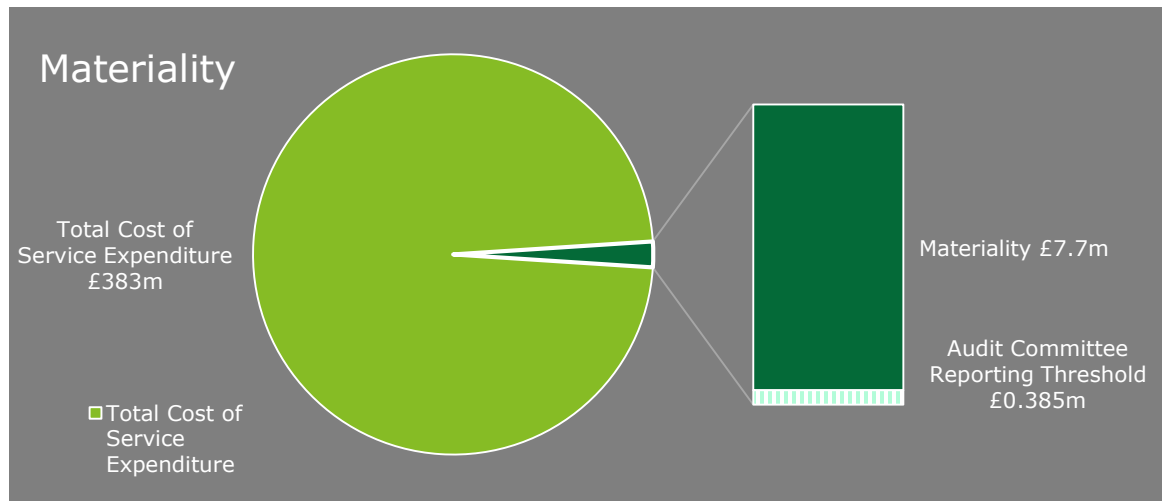
Basis of our materiality benchmark

- The audit partner has determined materiality as £7.7m (£7.6m in 2019/20), based on professional judgement, the requirement of auditing standards and the financial measures most relevant to users of the financial statements.
- We have used 2% of total cost of service expenditure based on the 2019/20 accounts as the benchmark for determining materiality.
- We will re-visit the determined materiality based on review of final outturn information when available.

Reporting to those charged with governance

- We will report to you all misstatements found in excess of £0.39m (£0.39m in 2019/20).
- We will report to you misstatements below this threshold if we consider them to be material by nature.

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Although materiality is the judgement of the audit partner, the Audit Committee must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.

Scope of work and approach

Audit considerations regarding the Group Accounts

We have not been appointed the auditor of the material subsidiary trusts and companies within the group. In order to gain sufficient assurance over significant account balances in the group accounts, we will perform further audit procedures at the material components. The relevant components for audit procedures are shown in the table below. These are based on 2019/20 figures. Based on discussion with management, we do not anticipate significant changes for the 2020/21 audit period. This may be revised based on actual 2020/21 outturn.

Components	Expenditure (Cost of Services) 2019/20 £m	Net Assets 31/3/20 £m	%age of total Group Expenditure	%age of group Net Assets	Summary of work to be performed
Council	383.2	505	95%	97.1%	The Deloitte group audit team will perform full-scope audit procedures under the code on this component.
Trust Funds	1.3	23	0.32%	4.42%	The Trust Funds are audited separately by a different firm with a timeline that may not meet audit deadlines. For the purpose of the group audit opinion, material Trust funds will have specified tests performed by the group team focused on assets held.
South Essex Homes Limited	10.5	(3.1)	2.6%	(0.6%)	SEHL is audited separately by a different firm with a timeline that may not meet audit deadlines. For the purpose of the group audit opinion, SEHL will have specified tests performed by the group team.
Southend Care Limited	8.4	(4.6)	2.08%	(0.88%)	SCL is audited separately by a different firm with a timeline that may not meet audit deadlines. For the purpose of the group audit opinion, SCL will have specified tests performed by the group team.

Group Materiality

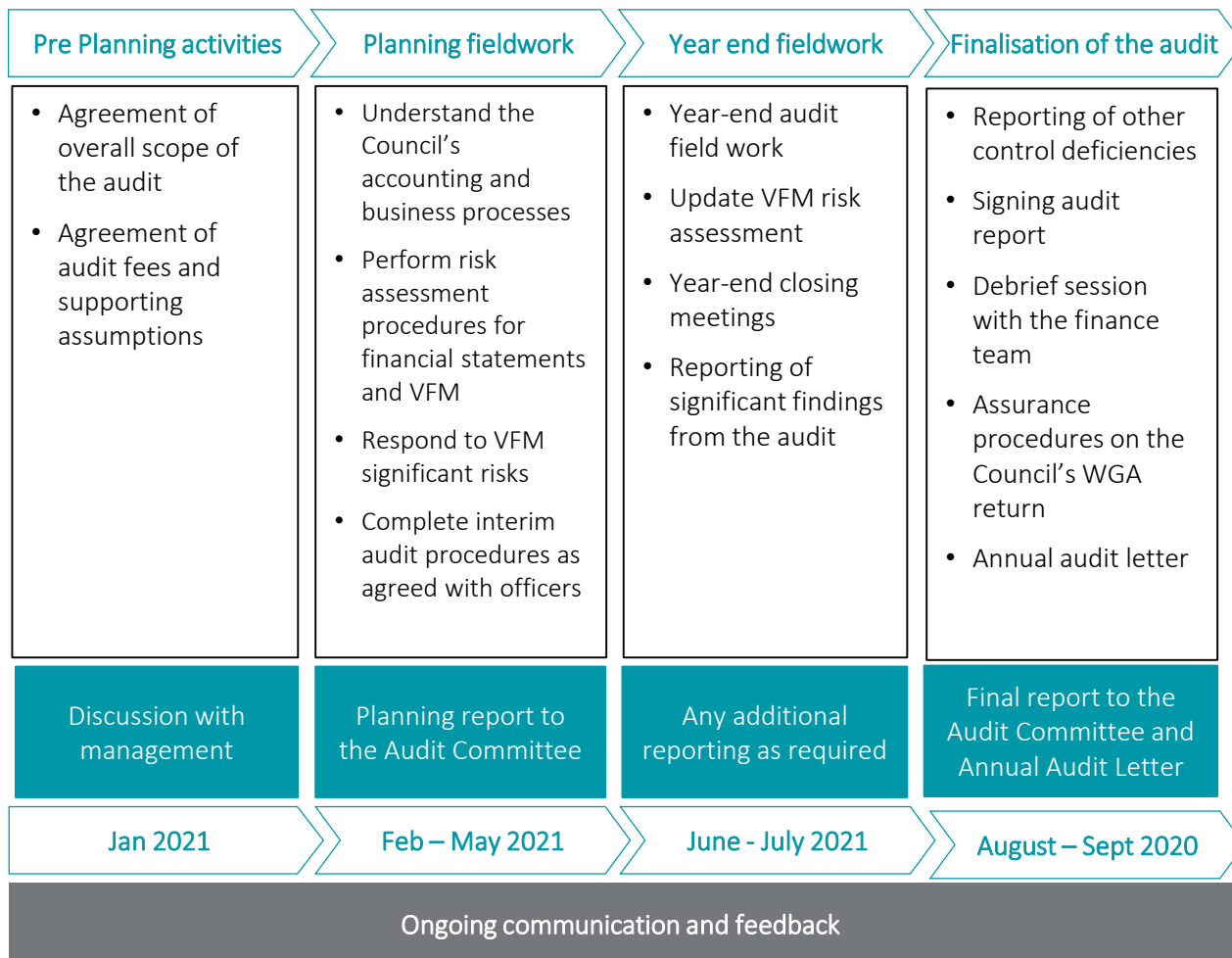
Materiality for the group is £7.8m in line, but slightly higher than, the Council level alone of £7.7m. In order to apply meaningful specified procedures to the non-Council, in-scope group entities, component materiality will be reduced accordingly based on the percentage of the group represented by each subsidiary and will be no more than 40% of the group materiality figure of £7.8m.

Continuous communication and reporting

Planned timing of the audit

As the audit plan is executed throughout the year, the results will be analysed continuously and conclusions (preliminary and otherwise) will be drawn. The following sets out the expected timing of our reporting to and communication with you.

We note the planned schedule below has been impacted by Covid 19 with the final deadline set as 30 September 2021. It is still our intention to complete the vast majority of the required audit work in the June/July period.



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Your control environment

What we consider when we plan the audit

We expect management and those charged with governance to recognise the importance of a strong control environment and take proactive steps to deal with deficiencies identified on a timely basis, particularly where they are subject to the principles of the UK Corporate Governance Code.

Responsibilities of management

Auditing standards require us to only accept or continue with an audit engagement when the preconditions for an audit are present. These preconditions include obtaining the agreement of management and those charged with governance that they acknowledge and understand their responsibilities for, amongst other things, internal control as is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As stakeholders tell us that they too wish to understand how external audit challenges and responds to the quality of an entity's control environment, we are seeking to enhance how we plan and report on the results of the audit in response. We will be placing increased focus on how the control environment impacts the audit, from our initial risk assessment, to our testing approach and how we report on misstatements and control deficiencies.

Responsibilities of the audit committee

The Audit Committee is responsible for:

- Reviewing the internal control and risk management systems (unless expressly addressed by separate board risk committee).
- Explaining what actions have been, or are being taken to remedy any significant failings or weaknesses.

Reliance on controls



We test evaluate the design and test the implementation of key controls for the audit.
We have historically not adopted a control reliant approach, on the basis of efficiency.

Performance materiality



We set performance materiality as a percentage of materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed materiality. We determine performance materiality, with reference to factors such as the quality of the control environment and the historical error rate. Where we are unable to rely on controls, we may use a lower level of performance materiality.

Significant risks – statement of accounts

Our risk assessment process

We consider a number of factors when deciding on the significant audit risks. These factors include:

- the significant risks and uncertainties previously reported in the narrative report and financial statements;
- the IAS 1 critical accounting estimates previously reported in the annual report and financial statements;
- our assessment of materiality; and
- the changes that have occurred in the business and the environment it operates in since the last annual report and financial statements.



Deloitte view

IAS 1 requires entities to make disclosures about the assumptions it has made about the future and other major sources of estimation uncertainty at the year end that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year.

If a matter does not meet this criterion, it should not be included in the disclosure on sources of estimation uncertainty.

We recommend the Council re-examine whether the estimates it disclosed in the prior year meet this criterion.

Inherent Red risks

- Council Budget/Financial Sustainability
- Recruit/Retain staff
- External challenges e.g. Brexit, government agenda, relationships with key partners
- Changes in government housing policy
- Access to regeneration funding
- Failure to integrate Health and Social Care
- Children’s Services Improvement Plan
- Surface flooding and seafront cliff movement
- Cyber Security
- Waste contracts
- Major infrastructure
- Meet Local Plan deadlines

IAS 1 Critical judgements and accounting estimates

- Future levels of funding
- Recognition of schools on the balance sheet
- PPE valuations
- Pension liability valuation

Prior year significant risks

- Valuation of properties
- Management override of controls
- Capital expenditure

Changes in environment

- Upcoming capital projects
- Southend 2050

We have noted above “inherent” risks scored as “Red”. We note the Council Risk Register reflects inherent, current and target risks defined as follows:

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.

The latest risk register indicated that no risks have a “Current” rating as “Red”.

Significant audit risks

Risk 1 – Property Valuation

Risk identified	<p>The Council held dwellings of £375m and other land and buildings (principally schools) of £266m at 31 March 2020 which are required to be recorded at current or fair value at the balance sheet date. The authority also holds £41m of commercial investment property.</p> <p>The fixed asset portfolio is divided into five key asset categories. The Council’s practice is to obtain a specific valuation on one of the five asset categories at the start of the year on a cyclical basis. This approach leads to the full asset portfolio being evaluated within each five-year period. In addition to this specific exercise the Council also obtains advice as to whether there has been a material change in the period up to the balance sheet date based on indices. Any changes based on index factors are then applied to the total asset base.</p> <p>Key judgements include:</p> <ul style="list-style-type: none">• Whether there has been a material change since the date of the last valuation.• In the valuation of dwellings, defining appropriate beacon groups, such that the level of homogeneity of properties within each group is appropriate, and selecting appropriate comparators and, where relevant, making appropriate adjustments. The dwellings population are in scope for full revaluation for 2020/21.
Our response	<p>We will test the design and implementation of key controls in place around the property valuation.</p> <p>We will use our valuation specialists, Deloitte Real Estate, to review the methodology and approach and to challenge the appropriateness of the year-end valuation, focusing on the key subjective inputs. This will support confirmation that the valuation movements are consistent with expectations seen in other data regarding the property market.</p> <p>Our specialists will also evaluate the methodology applied in and the outcomes of the full valuation of the Council Dwellings category, performed as at 1 April 2020 and will assess and challenge the index-based factor applied to the whole property portfolio to adjust the overall valuation to the balance sheet date.</p>

Significant audit risks

Risk 2 – Capital Expenditure

Risk identified	<p>As part of the Medium Term Financial Strategy, the Council has a substantial capital programme of £233m over the next five years. The capital programme included £59.7m spend in 2019/20.</p> <p>Determining whether or not expenditure should be capitalised can involve judgement as to whether costs should be capitalised under International Financial Reporting Standards.</p> <p>The Council has greater flexibility of the use of revenue resource compared to capital resource. There is also, therefore, an incentive for officers to misclassify revenue expenditure as capital. We have therefore identified classification of capital expenditure as a fraud risk in the financial statements.</p>
Our response	<p>We will test the design and implementation of controls around the capitalisation of costs.</p> <p>We will select a sample of additions in the year to test whether they have been appropriately capitalised in accordance with the accounting requirements. This sample will include Assets Under Construction.</p>

Significant risks

Risk 3 – Management override of controls

Risk identified

In accordance with ISA 240 (UK and Ireland) management override of controls is a presumed significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Authority's controls for specific transactions.

The key judgments in the financial statements are those which we have selected to be the significant audit risks; capitalisation of expenditure and valuation of the Authority's estate. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements.

Our response

In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk:

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- We will risk assess journals and select items for detailed follow up testing. We do this by using computer-assisted profiling to identify journals which have characteristics of increased interest. We will then test the appropriateness of journal entries selected through this profiling activity, and other adjustments made in the preparation of financial reporting.
 - We will review accounting estimates for evidence of bias that could, in aggregate, result in material misstatements due to fraud. Other areas of estimation in addition to the above include provisions (of which the most significant is the provision for NNDR appeals), bad debt provisions and estimation of depreciation based on a selection of useful economic lives.
 - We will obtain an understanding of the business rationale of significant transactions that we become aware of that are outside of the normal course of business for the entity, or that otherwise appear to be unusual, given our understanding of the entity and its environment.
-

Value for money

There is a new Code of Audit Practice for 2020/21 onwards. The Code is applicable to NHS Trusts and Foundation Trusts, CCGs, and Local Authorities. This introduces significant changes to the requirements around Value for Money (the arrangements to secure economy, efficiency, and effectiveness in the use of resources). The NAO issued Auditor Guidance Note 03 (AGN03), Value for Money, in October 2020 setting out more detailed guidance on how the new requirements should be implemented. Key features of the requirements include:

For all bodies, the auditor will need to provide a public narrative commentary against the Value for Money criteria in a new “Auditor’s Annual Report” (AAR), to be issued alongside the audit opinion for Local Authorities. This commentary will include a summary against each of the reporting criteria, setting out the work undertaken, and judgements and local context relevant to the findings. This commentary needs to be supported by more extensive work to understand the body’s arrangements to secure economy, efficiency and effectiveness, to support this commentary and to identify whether there are risks of significant weaknesses in arrangements.

If a risk of significant weaknesses is identified, additional work is required to determine whether there are significant weaknesses and to make relevant recommendations if this is the case on a timely basis, which will also be explained in the Auditor’s Annual Report. The AAR will also include follow up on previous recommendations in respect of significant weaknesses and whether they’ve been implemented satisfactorily. The audit opinion will continue to include reporting by exception, though now this will be where the auditor has identified a significant weakness in arrangements rather than an overall conclusion on arrangements. The three criteria that would be considered in Value for Money work are be:

- Financial sustainability: How the body plans and manages its resources to ensure it can continue to deliver its services;
- Governance: How the body ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: How the body uses information about its costs and performance to improve the way it manages and delivers its services.

The National Audit Office and the audit firms are continuing to discuss the practical implementation of these new requirements and expectations as to the extent of procedures underpinning these requirements. Expectations in this area are likely to continue to evolve as practical issues emerge in implementation.

We will:

- Undertake VfM planning work under the revised procedures.
- As the detailed impact on scope becomes clearer, we will discuss and agree the impact of the required scope changes with management.
- Our year-end reporting will include our draft findings ahead of issue of the Auditor’s Annual Report.

Reporting hot topics

Increased focus on quality reporting

Deloitte view

The expectations of corporate reporting, reflected in the FRC's monitoring and enforcement priorities, are increasing. While the focus is primarily on corporates, we highlight these areas where improved disclosures would help meet stakeholder expectations.



The potential impacts of Brexit

Depending upon events, organisations may be preparing annual reports against the backdrop of continued uncertainty around the UK's future relationship with the EU. Even with a deal, the future basis of UK-EU trade will affect the longer-term viability period of 35 years and a longer consideration of prospects.

ACTION: Depending upon events, we would expect to see annual reports reflecting at least:

- relevant risks and uncertainties, and actions taken to manage those risks; and
- consideration whether any impact on critical accounting judgements and areas of estimation uncertainty.

We will discuss with the Council closer to the time areas where disclosures may be appropriate.



Climate-related risks

The report by the Intergovernmental Panel on Climate Change (IPCC) has made it clear that prompt and decisive action on climate change is required from governments, businesses and individuals alike.

The recommendations of the Taskforce on Climate-related Financial Disclosure (TCFD) are gaining momentum. The government has proposed mandatory TCFD disclosures by 2022, and the FRC is undertaking a major review of how organisations assess and report the impact of climate change. The FRC expects organisations to disclose how they have taken climate change into account in assessing the resilience of the business model, its risks, uncertainties and viability both in immediate and longer term.

Investors are challenging companies that are not factoring the effects of the Paris Climate Agreement into their critical accounting judgements and are not disclosing comprehensively these judgements, assumptions, sensitivities and uncertainties.

ACTION: In line with best practice, we recommend the Council clearly articulate how your organisation is addressing climate change e.g.

- whether this is a principal risk and how it is being managed; and
- its impact on the business model, the viability statement and the key assumptions and projections in impairment reviews and valuations (including in assessing remaining asset lives).

Revisions to auditing standards coming into effect

ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures

Since 2015, the International Auditing and Assurance Standards Board (IAASB) has sought to identify audit issues relating to accounting estimates for financial institutions and other entities. Initially, this focused on the impact of IFRS 9 *Financial Instruments*, because it would fundamentally change the way that banks and other entities account for loan assets and other credit exposures.

However, the IAASB concluded that most, if not all, issues identified for expected credit losses would be equally relevant when auditing other complex accounting estimates. Accordingly, a holistic revision of ISA 540 was undertaken and the new standard takes effect for periods commencing on or after 1 January 2020. For NHS bodies, this will be March 2021 year ends and later.

We summarise on the next few slides how this will impact our audit.

“There is a clear need to update ISA 540 to support better quality audits of increasingly complex accounting estimates”

FRC letter to the IAASB, July 2017



Area of change

Impact on our audit

Impact on the officers

Assessment of oversight and governance relating to estimates

In connection with our planning work to understand the entity and its environment, including internal control, we will specifically inquire regarding management’s processes, and the oversight and governance of those processes relating to accounting estimates.

Key areas of estimation include revenue recognition, property valuations, accruals and any material year end provisions.

You will need to consider the adequacy of your processes and controls over estimates, and documentation thereof.

Revisions to auditing standards coming into effect

ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures

Area of change	Impact on our audit	Impact on the officers
<p>Identification of inherent risk factors; separate assessment of inherent risk and control risk.</p> <p>Objectives-based work effort requirements.</p> <p>57</p>	<p>Recognising a spectrum of inherent risk, we will assess risks of material misstatement in estimates with reference not only to estimation uncertainty, but also complexity, subjectivity or other inherent risk factors, and the interrelationship among them.</p> <p>We will specifically assess control risk relating to estimates, which may require us to evaluate the design and determine implementation of an increased number of internal controls. Our subsequent audit procedures will be responsive to this assessment, and designed to obtain evidence around the methods, significant assumptions, data and (where applicable) the selection of a point estimate and related disclosures about estimation uncertainty.</p>	<p>You will need to provide clear documented rationale for (a) the selection and application of the method, assumptions and data in making the accounting estimate, including any changes in the current year, and controls relating to those aspects; and/or (b) the selection of a point estimate and related disclosures for inclusion in the financial statements.</p>
<p>Enhanced “stand back” requirement, to evaluate the audit evidence obtained.</p>	<p>We will specifically design our procedures, to enhance our application of professional scepticism, so that they are not biased towards finding corroborative evidence; our overall evaluation of the evidence obtained will weigh both corroborative and contradictory evidence.</p>	<p>You should expect more challenge of the evidence provided in support of accounting estimates, use of external data sources and your consideration of contradictory evidence.</p>

Revisions to auditing standards coming into effect

ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures

Area of change	Impact on our audit	Impact on the officers
Enhanced requirements about whether disclosures are “reasonable” .	The extant ISA 540 required us to evaluate whether disclosures were “adequate”. The change to “reasonable” will involve greater consideration of the overall meaning conveyed through disclosures. For example, where estimation uncertainty associated with an estimate is multiple times materiality, we will consider whether the disclosures appropriately convey the high degree of estimation uncertainty and the range of possible outcomes.	You should expect more challenge on disclosures relating to estimates, particularly for where you have selected a point estimate from a range and those with high estimation uncertainty.
⁵¹ New requirements when communicating with those charged with governance.	In accordance with ISA (UK) 260 and ISA (UK) 265, our communications from the audit have included significant qualitative aspects of your accounting practices and significant deficiencies in internal control. With the revised ISA (UK) 540, these communications will specifically include matters regarding accounting estimates and take into account whether the reasons for our risk assessment relate to estimation uncertainty, or the effects of complexity, subjectivity or other inherent risk factors.	You should expect increased reporting in relation to accounting estimates which may be mirrored in our audit report if it involves a Key Audit Matter.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to establish our respective responsibilities in relation to the audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes our audit plan, including key audit judgements and the planned scope.

What we don't report

As you will be aware, our audit is not designed to identify all matters that may be relevant to the Council.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by officers or by other specialist advisers.

Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the statement of accounts and the other procedures performed in fulfilling our audit plan.

Use of this report

This report has been prepared for the Audit Committee, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

Other relevant communications

We will update you if there are any significant changes to the audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.



Deloitte LLP

St Albans | 19 April 2021

Appendix 1 - Fraud responsibilities and representations

Responsibilities explained



Your Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with officers and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.



Our Responsibilities:

- We are required to obtain representations from your officers regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the statement of accounts as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risks section of this document, we have identified the risk of valuation of land and buildings, capital expenditure and management override of controls as key audit risks for your organisation.

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Fraud Characteristics:

- Misstatements in the statement of accounts can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the statement of accounts is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

We will request the following to be stated in the representation letter:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the statement of accounts may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity or group and involves:
 - (i) officers;
 - (ii) officers who have significant roles in internal control; or
 - (iii) others where the fraud could have a material effect on the statement of accounts.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's statement of accounts communicated by officers, former officers, analysts, regulators or others.

Appendix 1 - Fraud responsibilities and representations

Inquiries

We will make the following inquiries regarding fraud:



Officers:

- Officers assessment of the risk that the statement of accounts may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Officers process for identifying and responding to the risks of fraud in the entity.
- Officers communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.
- Officers communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether officers have knowledge of any actual, suspected or alleged fraud affecting the entity.
- We plan to involve officers from outside the finance function in our inquiries.



Internal audit

- Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.



Those charged with governance

- How those charged with governance exercise oversight of officers processes for identifying and responding to the risks of fraud in the entity and the internal control that officers have established to mitigate these risks.
- Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.
- The views of those charged with governance on the most significant fraud risk factors affecting the entity.

Appendix 2 - Independence and fees

Independence

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation

We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Council and will reconfirm our independence and objectivity to the Audit Committee for the year ending 31 March 2021 in our final report to the Audit Committee.

Non-audit fees

There are no non-audit fees. In relation to the 2019/20 reporting period but during 2020/21 we provided Housing Benefit Assurance (£21k) and Teachers Pensions Assurance (£6k). This work is routine attest work that is regularly provided by the external auditor.

Independence monitoring



In our opinion there are no inconsistencies between the FRC's Ethical Standard and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

Relationships

We have no other relationships with the Authority, its members, officers and affiliates, and have not supplied any services to other known connected parties.

Appendix 2 - Fees

The professional fees expected to be charged by Deloitte in the period from 1 April 2020 to 31 March 2021 and as set out in our fee letter issued 9 October 2020 are as follows:

	Current year £'000
Financial statement audit including Whole of Government and procedures in respect of Value for Money assessment	159
Total audit	159
Audit related assurance services	-
Other assurance services	6
Total assurance services	6
Total fees	165

We note that the fee above represents an increase to the scale fee for the audit. The scale fee is £109k. The revision to the fee was communicated to management in October 2020 and will still need to be agreed with PSAA.

Appendix 3 - Our approach to quality

AQR team report and findings

Audit quality remains our number one priority and we have a relentless commitment to it. We continue to invest in and enhance our Audit Quality Monitoring and Measuring programme.

In July 2020 the Financial Reporting Council (“FRC”) issued individual reports on each of the seven largest firms, including Deloitte, on Audit Quality Inspections providing a summary of the findings of its Audit Quality Review (“AQR”) team for the 2019/20 cycle of reviews.

We greatly value the FRC reviews of our audit engagements and firm wide quality control systems, a key aspect of evaluating our audit quality.

We are pleased with our results for the inspections of FTSE 350 entities achieving 90% assessed as good or needing limited improvement, which included some of our highest risk audits. Our objective is for 100% of our audits to be assessed as good or needing limited improvement and we know we still have work to do in order to meet this standard. We are however, extremely disappointed one engagement received a rating of significant improvements required during the period. This is viewed very seriously within Deloitte and we have worked with the AQR to agree a comprehensive set of swift and significant firm wide actions.

We are also pleased to see the impact of our previous actions on prior year adjustments is reflected in the results of current year inspections with no findings in this areas. In addition the FRC identified good practice examples including in: risk assessment, group oversight, our comprehensive IFRS9 expected credit loss audit programme and our audit committee reporting.

Embedding a culture of challenge in our audit practice underpins the key pillars of our audit strategy. We invest continually in our firm wide processes and controls, which we seek to develop globally, to underpin consistency in delivering high quality audits whilst ensuring engagement teams exercise professional scepticism through robust challenge.

All the AQR public reports are available on its website.

<https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports>

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Southend-on-Sea Borough Council

Report of the Executive Director (Finance and Resources)

to

Audit Committee

on

28th April 2021

Report prepared by: Pete Bates, Interim Head of Corporate Finance, Caroline Fozzard, Group Manager – Financial Planning and Control and Andrew Barnes, Head of Internal Audit

Agenda
Item No.

66

CIPFA's Financial Management Code

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To update the Audit Committee on the Council's self-assessment outcome against the expectations of CIPFA's new Financial Management Code.

2. Recommendations

- 2.1 **The Audit Committee notes the Council's review against the expectations of CIPFA's Financial Management Code, takes assurance that the Council's arrangements have been self-assessed as compliant, and endorses the action plan to deliver further improvements**
- 2.2 **The Audit Committee agrees to keep the Council's compliance status against CIPFA's Financial Management Code under review and endorses the requirement for an annual self-assessment to be undertaken and reported to the Audit Committee every April.**

3. Background

- 3.1 In October 2019 CIPFA published a new Financial Management Code (FM Code) which is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. It essentially sets the standards of financial management arrangements for local authorities.
- 3.2 It is based on a series of principles which are supported by specific standards which are considered necessary to provide the strong foundation to:
- Financially manage the short, medium and long-term finances of a local authority
 - Manage financial resilience to meet unforeseen demands on services
 - Manage unexpected shocks in their financial circumstances.
- 3.3 The FM Code has six core principles and within those it has 17 minimum standards (A-Q) that came into effect from 1st April 2020, with the first full year of compliance being the 2021/22 financial year.

4. Self-assessment

4.1 The Council committed to undertake a self-assessment against each of the 17 standards contained within the FM Code. Officers in finance and audit have reviewed the Council’s current practices, and the evidence of their utilisation, to complete that self-assessment. The officers reviewed the evidence of the Council’s current arrangements compared to the FM Code’s expectations and expressed their degree of confidence about how well these arrangements met the FM Code’s expectations. This has resulted in a RAG rating that is being used to report the status of compliance against each standard:

Red	Not compliant
Amber	Compliant but with scope for further improvement
Green	Compliant

4.2 The results of the review undertaken by officers is represented by the diagram shown at Appendix 1. This illustrates that the Council is self-assessed as achieving overall compliance with the expectations of the FM Code. The Council meets the minimum expectations for all 17 standards, with good compliance for 13 standards and demonstrable compliance, but with recognised scope for further improvement for the remaining 4 standards.

4.3 In addition to the improvements recommended for the 4 standards rated as amber that are reported in the action plan at Appendix 2, additional work to ensure consistency and embedding of arrangements throughout the Council is also proposed to enhance the already compliant arrangements in respect of the following 3 standards:

- C: The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control
- E: The financial management style of the authority supports financial sustainability
- N: The leadership team takes action using reports, enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.

4.4 Whilst demonstrating best practice in all areas would always be ideal it is acknowledged that with the finite level of resources available, sensible judgements need to be made. The Council needs to have confidence in its arrangements and compliance with the Code, but also to ensure that arrangements are proportionate and represent a good use of limited available resources. The proposals in this report will be kept under review but it is considered that this fine balance has been achieved, and no extra costs will be incurred as a result of this assessment and recommended way forward.

4.5 Discussions have been held with the Corporate Management Team to confirm the:

- results of the self-assessment
- areas where we should focus our resources to deliver improvements
- commitment to continue to create the right conditions to embed good financial management, with clear ownership and accountability for delivering better outcomes
- need to embed the importance of securing value for money across all areas of the Council via the Knowing Your Business programme.

- 4.6 The findings of the self-assessment have resulted in the proposed action plan, included at Appendix 2. This plan outlines the steps that the Council will take to deliver further improvements to existing arrangements to ensure enhanced compliance with the expectations of the FM code while also supporting the delivery of the Southend 2050 Ambition, Roadmap and Outcomes. This work will also be included in the Council's Future Ways of Working Programme (FWOW) under the Financial Sustainability workstream.
- 4.7 It should also be noted that the NAO's Code of Audit Practice 2020 for external audit of local government that takes effect from the audit of the 2020/21 financial year has updated the approach that external auditors will be taking to delivering their review of the Council's Value for Money (VFM) arrangements. The Council's findings from the self-assessment against the FM Code will form part of the evidence provided to the external auditors to inform their review.

5. Reasons for Recommendations

- 5.1 **One of the purposes of the Audit Committee is to provide independent assurance on the adequacy of the internal control framework, therefore understanding the Council's compliance with the expectations of CIPFA (the sectors' standard setter) in respect of financial management assists the Committee to achieve this purpose.**

6. Corporate Implications

6.1 Contribution to the Southend 2050 Road Map

The corporate financial management arrangements underpin the operational effectiveness of the Council's corporate governance arrangements and specifically monitors progress of managing financial sustainability and the use of financial resources associated with the successful delivery of our Southend 2050 Ambition, Roadmap and Outcomes.

6.2 Financial Implications

Any financial implications arising from effectively managing the Council's financial position will be considered through the normal financial management processes. Proactively managing the Council's finances results in improved utilisation of limited resources, better VFM including reduced costs and improved outcomes for local residents.

6.3 Legal Implications

The Accounts and Audit Regulations 2015 require the Council to ensure 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 functions.

6.4 People Implications

Any people implications arising from managing the Council's finances will be considered through the Council's normal business management processes.

6.5 Property implications

Any property implications arising from managing the Council's finances will be considered through the Council's normal business management processes.

6.6 Consultation

Consultation has taken place with key stakeholders.

6.7 Equalities and Diversity Implications

Corporate equalities considerations have been considered in the drafting of the financial management arrangements and any specific equality related risks have been identified for the Council.

6.8 Risk Assessment

Failure to implement a robust and fit for purpose financial management framework increases the risk that Council objectives will not be delivered.

6.9 Value for Money

Effective forecasting and timely management of the finances of the Council is a key factor in preventing waste, inefficiency and unnecessary or unplanned use of resources.

6.10 Community Safety Implications

Any community safety implications arising from identifying and managing risk will be considered through the Council's normal business management processes.

6.11 Environmental Impact

Any environmental implications arising from managing the Council's finances will be considered through the Council's normal business management processes.

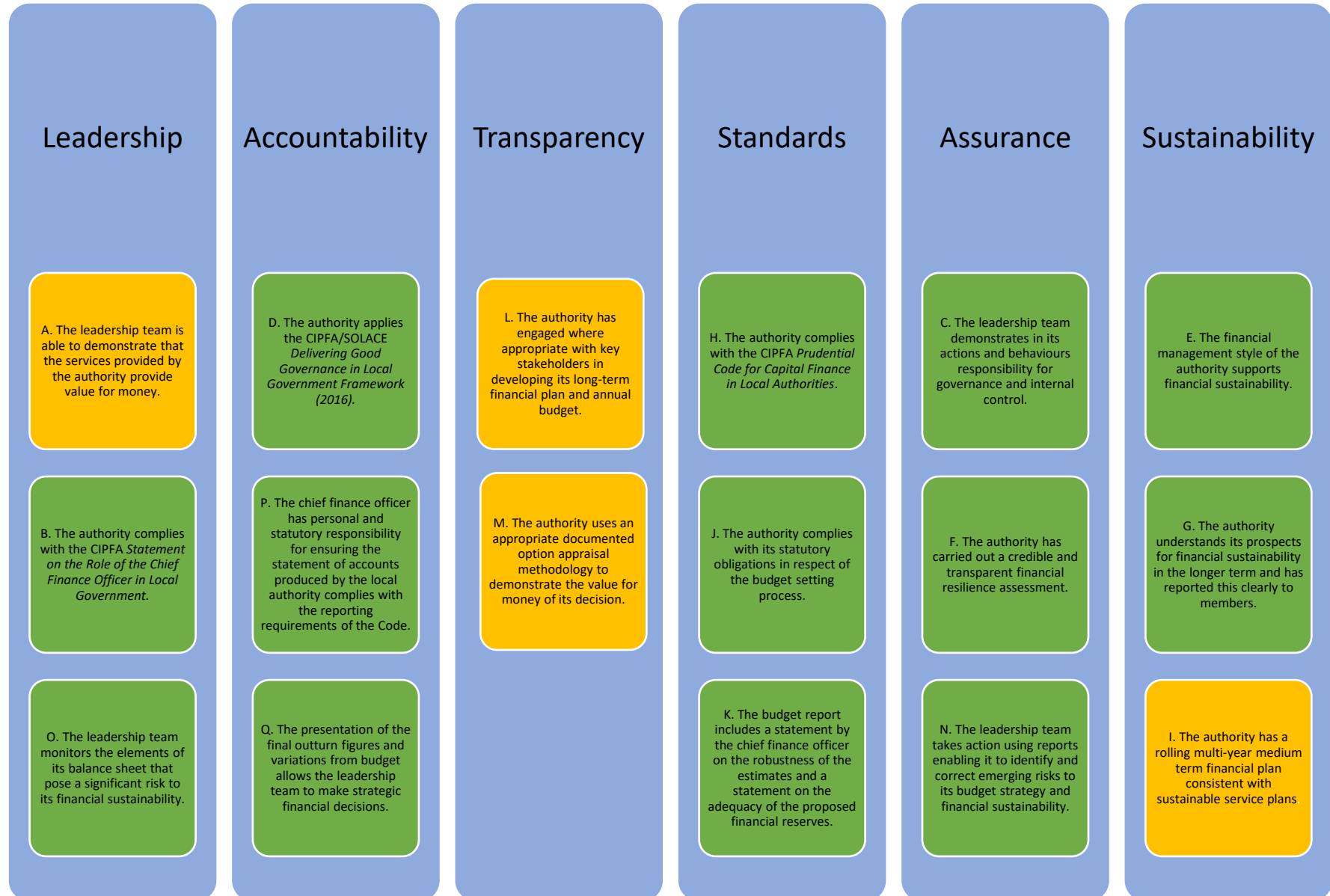
7. **Background Papers**

- CIPFA's Financial Management Code 2019
- CIPFA's Financial Management Code Guidance Notes 2020

8. **Appendices**

- Appendix 1 – Illustration of Self-Assessment Findings
- Appendix 2 – FM Code Action plan

Financial Management Code – Illustration of Self-Assessment Findings



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FINANCIAL MANAGEMENT CODE – SELF ASSESSMENT

ACTION PLAN FOR STANDARDS WHERE SOME IMPROVEMENTS ARE PROPOSED

	Financial Management Standard	RAG rating	Actions needed	Ownership	End date
A	The leadership team is able to demonstrate that the services provided by the authority provide value for money (VFM)	Amber	<p>To increase understanding within the Council of what represents value for money (VFM) in a local context so that more prominence can be given to VFM in reports and discussions.</p> <p>To continue with the implementation of the Knowing Your Business Programme to aid understanding of the key cost and income drivers and their effect on securing economy, efficiency and effectiveness in the use of the Council's resources.</p> <p>To use the outcomes from the Grant Thornton baselining and benchmarking exercise to inform the areas where greater understanding and targeted actions are needed.</p> <p>To assign an annual performance objective to every member of the wider leadership group to evidence value for money outcomes and to embed the requirements and understanding of the Knowing Your Business Programme within their individual teams/service areas.</p>	Corporate Management Team	March 2022

	Financial Management Standard	RAG rating	Actions needed	Ownership	End date
I	The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans	Amber	<p>To further embed medium-term financial planning within the organisation at an operational level to ensure strategic financial planning is not only consistent with, but is also integrated into all relevant service delivery plans.</p> <p>To increase the understanding and awareness of cost drivers, demand pressures and consideration of income opportunities throughout the Council.</p> <p>To continue with the integrated development and reporting of revenue and capital plans on a medium-term basis.</p> <p>To enhance the level of resilience testing of all these key drivers to assess the potential impact on the overall medium-term financial plan.</p>	Corporate Management Team	March 2022
L	The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget	Amber	<p>To align planned engagement and consultations with partners, key stakeholders and the community to more fully consider longer-term local investment priorities / choices.</p> <p>To create more opportunities to engage in the consideration of longer-term financial challenges and the strategic development of future financial arrangements for both strategic and operational plans with key partners and stakeholders.</p>	Corporate Management Team	March 2022

	Financial Management Standard	RAG rating	Actions needed	Ownership	End date
M	The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions	Amber	<p>To document corporate wide guidance on options appraisal methodology to ensure consistency whilst maintaining a proportionate approach.</p> <p>To raise awareness and understanding of the importance of Value for Money considerations and evidencing its delivery in all operational arrangements.</p>	Corporate Management Team	March 2022

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Southend-on-Sea Borough Council

Report of the Executive Director (Finance and Resources)

To

Audit Committee

On

28th April 2021

Report prepared by: Andrew Barnes, Head of Internal Audit

Internal Audit Services, Quarterly Performance Report

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 2020/21.

2. Recommendations

- 2.1 **The Audit Committee notes the progress made in delivering the 2020/21 Internal Audit Strategy.**

3. Internal Audit Plan Status

- 3.1 **Appendix 1** sets out the current status of the audit work contained in the updated plan, as at 16th April.
- 3.2 **Appendices 2 and 3** set out the results of the work completed since the last progress report to the Audit Committee in January.
- 3.3 In addition to planned audit work, the team has also been assisting the organisation with the work being undertaken to deliver Transforming Together, providing challenge and advice to the teams working on delivering the outcomes required for the Council to change. The Council is now updating this transformation programme to become focussed on Future Ways of Working, and the Head of Internal Audit has been asked to lead the 'Decision Making' workstream within that programme.
- 3.4 The team has also provided support resource to assist with the Council's Track and Trace team in response to the Covid-19 pandemic, with the business support officer being seconded into that team.
- 3.5 In order to ensure that our work continues to focus on the areas of greatest risk to the Council, we reconsidered our Audit Plan for 2020/21 that was initially presented to the Committee in April 2020 and this was re-presented to the Committee in October 2020. As noted in that report, the plan remains continuously under review, as will the utilisation of internal audit resources, in the context of the Council's ongoing response to the Covid-19 pandemic.

- 3.6 Since the last report to the Committee requests have been made by central government and senior management to review and assist with work being undertaken in a number of areas, and therefore the audit plan has been further amended to reflect the following items that are noted as 'New' in Appendix 1:
- An ICT risk assessment to ensure that resources can be focussed on the most critical areas of the ICT work arrangements
 - Post-payment assurance in respect of business support grant funding for the Department for Business, Energy and Industrial Strategy to ensure the funding provided has been awarded in line with the guidance provided. The Council has awarded almost £40 million through the following grants:
 - Small Business Grant Fund
 - Retail, Hospitality and Leisure Grant Fund
 - Local Authority Discretionary Grant Fund.
 - A follow up of the Council's response to the Better Queensway Project Assurance report that was completed earlier in the audit year
 - Assurance to the Department for Transport in respect of the Council's utilisation of the Emergency Active Travel Grant provided by that Department
 - A review of the specific concerns raised by councillors regarding the highways scheme for the Queensway development and the options for the underpass
 - Support and challenge to the service as they develop the Council's policy for awarding Disabled Facilities Grants
 - Support and challenge to the Adult Community College Board with responsibility for monitoring the transfer of the College's governance structure to a more flexible model in direct relationship with Council governance structures.
- 3.7 This represents significant additional work for the team to undertake on top of the plan that was previously agreed. As a result some items of work in the plan have not progressed as quickly as anticipated or desired. However, the team's work is focussed on the delivery of that plan and progress is documented in Appendix 1.

4. Performance Targets and Resourcing

- 4.1 As outlined in the Strategy presented to the April 2020 Audit Committee, the team will be reporting on a more limited set of indicators this year given the amount of work that is still being contracted out.
- 4.2 As at 31st March 2021:
- For the period 1st April 2020 – 31st March 2021 the team had sickness absence which equates to 11.02 days per FTE. This is high and is primarily as a result of three different members of the team requiring long periods of sickness absence. None of these were Covid-19 related and two of those officers are no longer part of the team

- 4.3 In terms of the 42 jobs now included in the audit plan:
- 42% of audits are complete with finalised reports issued
 - 2% of audits are complete with draft reports issued
 - 10% of audits have fieldwork completed with reports being drafted
 - 29% of audits are in progress
 - 14% of audits have terms of reference being agreed
 - 2% of audits are being planned
 - 2% of audits are resourced, but yet to be started.
- 4.4 No stakeholder surveys have been completed for 2020/21 because of the impact of Covid-19 and the redeployment of the Business Support Officer to assist with the Council's track and trace team.
- 4.5 Since the last report to the Audit Committee in January 2021 there have been no changes to the staffing of the team. This leaves the combined team with three vacancies. A Senior Auditor post that was advertised in January did not result in a successful appointment. This position has now been escalated to the specialist finance recruitment team at Hayes, who will provide an enhanced focussed service to assist with filling this position.
- 4.6 The salaries of the vacant posts are being used to fund audit resource brought in from suitable accountancy firms to assist with delivery of the audit plan
- 4.7 The expected requirements of the internal audit service into the future continue to evolve and the impact of Covid-19 is causing further deliberations to take place both at an industry level and at a local level. An in-house team supported by suitably experienced contractors for specialist work is currently assessed as being the most appropriate team model, utilising the financial resources available. The ongoing development of the team to implement this approach will result in an appropriate mix of experienced staff, trainees who will be put through a relevant training programme and externally sourced skills. This will enable the team to deliver the internal audit service required by the organisations that it serves.

5. Reasons for Recommendations

5.1 Internal audit is an assurance function providing assurance to assist the Audit Committee to effectively discharge its responsibilities as per its Terms of Reference. The delivery of the internal audit plan will assist the Audit Committee with obtaining assurance that the Annual Governance Statement appropriately reflects the conditions at the Council.

6. Corporate Implications

6.1 Contribution to the Southend 2050 Road Map

Audit work provides assurance and identifies opportunities for improvements that contribute to the delivery of all Southend 2050 outcomes.

6.2 Financial Implications

The Audit Plan will be delivered within the approved budget.

6.3 Legal Implications

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

6.4 People Implications

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

6.5 Property implications

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

6.6 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 the Audit Committee.

All terms of reference and draft reports are discussed with the relevant Managers, Directors or Deputy Chief Executive before being finalised.

6.7 Equalities and Diversity Implications

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

6.8 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 the Southend 2050 Ambition and outcomes.

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 develop the team, while processing work in a timely manner and providing strategic leadership to the team and support to the Council
- 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 while the service is being rebuilt.

6.9 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 periodically considers whether it provides a value for money service.

6.10 Community Safety Implications

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

6.11 Environmental Impact

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

7. Background Papers

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

8. Appendices

- Appendix 1 Internal Audit Plan 2020/21 progress status
- Appendix 2 Audit Assurance and Themes
- Appendix 3 Follow up audits

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Appendix 1: Status of Internal Audit Plan 2020/21

Dept & (Lead)	Service Activity	Fraud risk	Status as at 16 th April 2021
Managing the Business			
All	<p>Covid-19</p> <p>To assess the robustness of arrangements that ensure challenges and opportunities resulting from the Covid-19 emergency are effectively actioned, governed and the desired outcomes are realised.</p>	Yes	<p>As a result of Internal Audit's ongoing review of the Council's risk profile and in particular the impact of Covid-19 four new audits were identified. Please see Safe and Well for the following:</p> <ul style="list-style-type: none"> • Covid-19 Local Outbreak Governance Arrangements • Adults Social Care Recovery from Covid-19 • Covid-19 Volunteering • Financial Impact of Covid-19 – please see below.
F&R (PB)	<p>Financial Impact of Covid-19:</p> <p>To assess the robustness of the arrangements and /or financial modelling approach applied to:</p> <ul style="list-style-type: none"> • estimating the medium term financial impact of the pandemic to the Borough • ensuring capital programme priorities continue to meet the needs of the Borough. 	No	<p>Terms of reference prepared and being agreed.</p>
All	<p>IT Audit: Remote Working and Cyber Security Arrangements (2019/20)</p> <p>To assess the robustness of arrangements that enable the majority of staff to work remotely, while maintaining critical cyber security functions.</p>	Yes	<p>Completed September 2020.</p>

Appendix 1: Status of Internal Audit Plan 2020/21

Dept & (Lead)	Service Activity	Fraud risk	Status as at 16 th April 2021
All	<p>IT Audit: Disaster Recovery and Continuity Planning Arrangements (2019/20)</p> <p>To assess whether there are robust arrangements in place to ensure the design of the Council's IT Disaster Recovery (DR) planning documentation and processes are appropriate, complete and robust, and to explore whether there is sufficient assurance that the arrangements will operate in practice.</p>	Yes	Completed October 2020.
T (RP)	<p>Health and Safety</p> <p>To assess the robustness of the arrangements for ensuring employees and the public are adequately protected from harm whilst also complying with Council policy and legislation.</p>	No	Work in progress.
T (CT)	<p>ICT Management and Delivery</p>	No	This work has been deferred pending completion of the ICT risk assessment (see below) that will identify the most appropriate area of audit focus.
T (CT)	<p>New: ICT Risk Assessment</p> <p>To identify the key risks being faced by the Council in respect of IT that will contribute towards making an informed decision on the Council's IT environment, supporting the preparation of an IT roadmap for improvement and identifying the areas of key risk to be managed going forward.</p>	No	Terms of reference prepared and with the service for agreement.
<p>Implementing Action Plans - To check that actions agreed have been effectively implemented and have been embedded into the day to day operation of the service.</p>			
None			

Appendix 1: Status of Internal Audit Plan 2020/21

Dept & (Lead)	Service Activity	Fraud risk	Status as at 16 th April 2021
Managing Service Delivery Risks			
Pride and Joy			
By 2050 Southenders are fiercely proud of and go out of their way to champion what our city has to offer.			
N&E (NH)	<p>National Productivity Investment Fund</p> <p>To certify, in all significant respects, that the conditions attached to the grant have been complied with.</p>	Yes	Completed September 2020.
Implementing Action Plans - To check that actions agreed have been effectively implemented and have been embedded into the day to day operation of the service.			
None			
Safe and Well			
By 2050 people in Southend-on-Sea feel safe in all aspects of their lives and are well enough to live fulfilling lives			
A&C (AA)	<p>Rough Sleepers</p> <p>To assess the adequacy of arrangements to ensure:</p> <p>effective support is given to vulnerable people in order to achieve the outcomes within the Housing, Homelessness and Rough Sleeping Strategy, while achieving value for money.</p> <p>This will include the opportunities arising from the lessons learnt through the Covid-19 response.</p>	Yes	Audit Planning in progress.

Appendix 1: Status of Internal Audit Plan 2020/21

Dept & (Lead)	Service Activity	Fraud risk	Status as at 16 th April 2021
C&PH (JOL)	<p>Children’s Quality Assurance Framework (QAF)</p> <p>To assess the robustness of arrangements for ensuring that the QAF effectively monitors and evaluates the services delivered to children and to the standards that enable children and young people’s welfare to be safeguarded and promoted and their needs met.</p> <p>This will include the arrangements to assess the risks posed by the changes to ways of working as a result of Covid-19.</p>	No	<p>Internal Audit continue to provide insight, challenge, and feedback (including the use of risk to support decision making) as the service develops its more focused approach to the Quality Assurance Framework.</p>
A&C (SB)	<p>Essex Partnership University Trust (EPUT) Section 75 Agreement</p> <p>To assess the robustness of arrangements to ensure the delivery of the outcomes required from the Section 75 agreement are realised.</p>	Yes	<p>Terms of Reference prepared and with the service for agreement.</p>
G&H (GH)	<p>Disabled Facilities Grant</p> <p>To certify that, in all significant respects, the conditions attached to the grant have been complied with.</p>	Yes	<p>Completed October 2020.</p>
C&PH (JOL)	<p>Troubled Families</p> <p>To certify that, in all significant respects, the conditions attached to the grant have been complied with.</p> <p><i>Planned throughout the year to align with the Payment by Results claim windows set by the Ministry of Housing, Communities and Local Government.</i></p>	Yes	<p>Completed claim periods:</p> <ul style="list-style-type: none"> • April to end of June 2020 • July to end of September 2020 • October to end of December 2020 • January to March 2021 <p>All returns now complete for 2020/21.</p>

Appendix 1: Status of Internal Audit Plan 2020/21

Dept & (Lead)	Service Activity	Fraud risk	Status as at 16 th April 2021
C&PH (KR & AG)	<p>Covid-19 Local Outbreak Control Plan - Governance Arrangements:</p> <p>To assess the robustness of arrangements which ensure Southend's Local Outbreak Plan fulfils its objective of protecting the health of the population of Southend.</p> <p>The work will also include the processes being developed for ensuring the spend on the ring fenced Test and Trace Support Grant is in line with the terms and conditions set by the Department of Health and Social Care.</p>	Yes	<p>Draft report with Audit Manager for review.</p> <p>The work required in relation to the Department of Health's Test and Trace Support Grant has been added to the 2021/22 Audit Plan as the completed certification for this is required in May 2021.</p>
A&C (SB)	<p>Adults Social Care Recovery from Covid-19:</p> <p>To assess the robustness of measures to monitor and review the temporary changes to normal day to day processes /arrangements which aimed to ensure the care and support of vulnerable residents was prioritised e.g. postponement of financial assessments for residents receiving care, relaxation in approval arrangements for changes to care packages.</p>	Yes	Work in progress.
T&AC (SP SB)	<p>Covid-19 Volunteering:</p> <p>To assess the robustness of arrangements which ensured sufficient safeguarding measures were considered when enrolling volunteers to provide essential support to vulnerable residents</p>	Yes	Terms of Reference prepared and being agreed.

Appendix 1: Status of Internal Audit Plan 2020/21

Dept & (Lead)	Service Activity	Fraud risk	Status as at 16 th April 2021
<p>Implementing Action Plans -To check that actions agreed have been effectively implemented and have been embedded into the day to day operation of the service.</p>			
A&C (SB)	Direct Payment Support Service Contract Management	Yes	Work in progress.
<p>Active and Involved</p> <p>By 2050 we have a thriving, active and involved community that feel invested in our city</p>			
<p>Implementing Action Plans - To check that actions agreed have been effectively implemented and have been embedded into the day to day operation of the service.</p>			
None			
<p>Opportunity and Prosperity</p> <p>By 2050 Southend-on-Sea is a successful city and we share our prosperity amongst all of our people</p>			
G&H (EC)	<p>Better Queensway Project Assurance</p> <p>To assess the robustness of the Council's project management arrangements to deliver the required outcomes and benefits for the citizens of Southend.</p>	No	Completed December 2020.
T (SP)	<p>Hayes Contract Management</p> <p>To assess whether there are robust arrangements in place to ensure that the contract is delivering the planned outcomes and / or benefits in compliance with the specified performance and quality standards, at the correct cost.</p>	Yes	<p>Contract management resource secured.</p> <p>Still assessing the priorities for using this resource in the most effective way to support the Council in terms of the impact of Covid-19 has had on the delivery of services by contractors/providers.</p> <p>Update:</p> <p>In light of the potential impact of Brexit and Covid-19, potential refocussing of audit resource being discussed with the Corporate Procurement team around the robustness of exit strategies for the Council's critical contracts.</p>

Appendix 1: Status of Internal Audit Plan 2020/21

Dept & (Lead)	Service Activity	Fraud risk	Status as at 16 th April 2021
G&H (EC & RP)	Adult Community College Debt Collection To assess the robustness of arrangements to collect debt fully and in a timely manner.	Yes	Fieldwork completed. Exit meeting being arranged.
G&H (EC & RP)	Adult Community College Payroll To assess the robustness of arrangements to accurately and properly pay non-salaried college staff.	Yes	Fieldwork nearing completion.
F&R (JC)	New: Department for Business, Energy and Industrial Strategy (BEIS): To undertake post-payment assurance work to ensure business support grant funding for the following grants had been awarded in line with the guidance provided by BEIS: <ul style="list-style-type: none"> • Small Business Grant Fund • Retail, Hospitality and Leisure Grant Fund • Local Authority Discretionary Grant Fund 	Yes	Work in progress.
Implementing Action Plans - To check that actions agreed have been effectively implemented and have been embedded into the day to day operation of the service.			
G&H (EC & RP)	New: Better Queensway Project Assurance (follow up to completed piece of work above)	No	Fieldwork nearing completion.
Connected and Smart By 2050 people can easily get in, out and around our borough and we have a world class digital infrastructure			
N&E (CR)	Climate Change To assess the adequacy of arrangements to deliver the outcomes required of the Climate Change Emergency Action Plan.	No	Draft report provided to the service area and further support provided in delivering the response.

Appendix 1: Status of Internal Audit Plan 2020/21

Dept & (Lead)	Service Activity	Fraud risk	Status as at 16 th April 2021
N&E (NH)	<p>Transport Joint Venture</p> <p>Original Focus of the work</p> <p>To assess the robustness of the governance arrangements which ensure the effective delivery of the joint venture (JV) arrangement.</p> <p>Updated Focus of the work</p> <p>To assess the robustness of the Council's planned arrangements, as they are developed, for ensuring core transport service requirements transferred to the JV (Vecteo) from 1 March 2020, will and / or are delivering:</p> <ul style="list-style-type: none"> • an efficient, reliable, punctual & safe service that meets the needs and delivers the required outcomes for the vulnerable adults and children relying on the service; and • at the right contractual price. 	Yes	<p>An assessment of the JV risk profile during the planning phase of the work identified risks at a more operational level for the core services transferred to Vecteo, given that these core services need to meet the needs of some of Southend's vulnerable residents.</p> <p>The original planned focus on the JV's governance arrangements is being reassessed for inclusion in the 2021/22 Audit Plan.</p> <p>Terms of reference being agreed.</p>
N&E (SH)	<p>Parking Enforcement Income Collection</p> <p>To assess the robustness of arrangements for the proper and timely collection of Penalty Charge Notice (PCN) income in line with the Traffic Management Act 2004.</p>	Yes	Work in progress.
N&E (NH)	<p>Local Transport Capital Block Funding - Highways Maintenance</p> <p>To certify that, in all significant respects, the conditions attached to the grant have been complied with.</p>	Yes	Completed September 2020.

Appendix 1: Status of Internal Audit Plan 2020/21

Dept & (Lead)	Service Activity	Fraud risk	Status as at 16 th April 2021
N&E (NH)	<p>Pothole Action Fund</p> <p>To certify that, in all significant respects, the conditions attached to the grant have been complied with.</p>	Yes	Completed September 2020.
N&E (AW)	<p>Department for Transport: Travel Demand Management Grant (awarded 29-7-20)</p> <p>To certify that, in all significant respects, the conditions attached to the grant have been complied with.</p>	Yes	Completed January 2021.
N&E (AW)	<p>Department for Education: Additional Dedicated Home to School and College Transport Grant (awarded 11-8-20)</p> <p>To certify that, in all significant respects, the conditions attached to the grant have been complied with.</p>	Yes	Work in progress.
N&E (AW)	<p>New: Emergency Active Travel Grant (awarded 29/06/2020)</p> <p>To certify that, in all significant respects, the conditions attached to the grant have been complied with.</p>	Yes	Completed March 2021.
<p>Implementing Action Plans - To check that actions agreed have been effectively implemented and have been embedded into the day to day operation of the service.</p>			
No work required			

Appendix 1: Status of Internal Audit Plan 2020/21

Dept & (Lead)	Service Activity	Fraud risk	Status as at 16 th April 2021
Key Financial Systems			
All Outcomes			
All	<p>Accounts Payable – Batch Input Files (BIF)</p> <p>To assess the robustness of arrangements to ensure that these payment files are accurate and secure.</p>	Yes	<p>Work postponed and now being reassessed as part of the ongoing review of the Council's risk profile given the impact of Covid-19.</p> <p>The work will be reassessed for inclusion in the 2021/22 Audit Plan.</p>
Implementing Action Plans			
All	<p>Payroll (2019/20)</p> <p>To assess whether the actions agreed in the original audit report have been implemented and are now effectively embedded into the day-to-day operation of the service.</p>	Yes	Completed January 2021.
Advice and Support			
All Outcomes			
All	<p>Simple and Effective Governance</p> <p>Provide ongoing support and challenge of the governance arrangements being developed, implemented and embedded by the Transforming Together team.</p>	No	<p>Ongoing.</p> <p>Members of the Internal Audit team attend and input to the Transforming Together work programme, focussing on embedding the effectiveness of risk management arrangements and the role and effectiveness of the Governance Boards.</p> <p>This is now being updated to the Future Ways of Working programme to which internal audit will continue to contribute, with the Head of Internal Audit asked to lead on the 'Decision Making' workstream.</p>

Appendix 1: Status of Internal Audit Plan 2020/21

Dept & (Lead)	Service Activity	Fraud risk	Status as at 16 th April 2021
All	<p>Getting to Know Your Business Provide ongoing support and challenge of the arrangements being developed and implemented to challenge Council services about what they do, why they do it and how they do it, to ensure that the Council is delivering the right things effectively and financially sustainable.</p>	No	<p>Work in Progress.</p> <p>Internal Audit have been providing support and challenge to the Adult Social Care Finance and Performance work group as they develop the arrangements for managing the activity, financial and performance data within LAS, ContrOCC and Business World systems.</p> <p>Next steps for the group include developing:</p> <ul style="list-style-type: none"> • a report summarising the work done to date; and • an action plan detailing the work and resource required to address any further areas outstanding.
G&H (EC)	<p>New: Better Queensway Highways Scheme In relation to the specific concerns raised by councillors regarding the highways scheme for the Queensway development and the options for the underpass and / or roundabout; to determine whether:</p> <ul style="list-style-type: none"> • proper and transparent processes were followed regarding the appointment of the preferred bidder for the 50/50 joint venture • the arrangements for sharing and / or reporting on the Queensway highways scheme were sufficiently transparent to support an informed decision-making process by members • the Council has lessons to learn regarding arrangements that would improve and give clarity to decision making processes, given the significance of other projects the Council is involved with. 	N/A	<p>Fieldwork complete. Report being drafted.</p>

Appendix 1: Status of Internal Audit Plan 2020/21

Dept & (Lead)	Service Activity	Fraud risk	Status as at 16 th April 2021
Pride and Joy By 2050 Southenders are fiercely proud of, and go out of their way, to champion what our city has to offer.			
N&E (IK)	Waste Collection and Street Cleansing Provide support and challenge to the project team during the options appraisal process of the procurement arrangements that are currently underway for new waste collection and street cleansing operations.	No	The Corporate Procurement team are supporting the service in assessing options for the service going forward. Work no longer required.
Safe and Well By 2050 people in Southend-on-Sea feel safe in all aspects of their lives and are well enough to live fulfilling lives			
C&PH and A&C	Liquid Logic / ContrOCC: Provide support and challenge as new change request arrangements for these systems are being considered.	Yes	Work in Progress. Internal audit has provided advice and challenge to the service area while they develop new processes for adding new organisations onto the LCS and ContrOCC systems.
F&R/ and T	Fire Safety To provide support and challenge to the working group to ensure that fire safety arrangements are appropriate and effectively managed to make buildings safe and feel safe, now and in the future.	Yes	Work in Progress.
C&PH (JOL)	In House Foster Carers To provide support and challenge to the service as they develop governance and reporting arrangements to support the delivery of the improvement action plan.	No	Completed January 2021. Internal audit has facilitated discussions between the council's Data and Foster Care teams to develop insightful performance management information which will support monitoring the delivery of the outcomes detailed in the service's improvement plan.

Appendix 1: Status of Internal Audit Plan 2020/21

Dept & (Lead)	Service Activity	Fraud risk	Status as at 16 th April 2021
A&C (SB)	<p>New: Disabled Facilities Grant – Policy Work</p> <p>To provide support and challenge to the service as they develop the Council's policy for awarding grants.</p>	Yes	<p>Completed March 2021.</p> <p>Work undertaken alongside the Adaptations Team Manager and Interim Director of Adult Social Care while they develop the Disabled Facilities Grant Policy to ensure that it complies with the terms and conditions of the grant funding.</p> <p>The changes made will provide flexibility to how the Council uses grant monies provided by MHCLG. Proposed changes include:</p> <ul style="list-style-type: none"> • removing the means test requirement for lower value adaptations, which will allow for works to be undertaken more quickly • increasing the £30,000 grant limit, allowing for more complex adaptations which will support residents to remain living independently for longer.
<p>Active and Involved</p> <p>By 2050 we have a thriving, active and involved community that feel invested in our city</p>			
A&C (SD)	<p>Fusion Contract Management</p> <p>(Approach altered to better meet needs of the service)</p>	Yes	<p>Internal Audit continue to provide support and challenge as the service navigates post Covid-19 arrangements with the contractor.</p> <p>No further work this quarter.</p>
<p>Opportunity and Prosperity</p> <p>By 2050 Southend-on-Sea is a successful city and we share our prosperity amongst all of our people</p>			
G&H (EC)	<p>Town Centre Engineroom Working Group:</p> <p>To provide support and advice for establishing proportionate governance arrangements that appropriately support the Group in shaping and driving forward the town centre.</p>	Yes	<p>No work this quarter. Work completed for 2020/21. The work will be reassessed for inclusion in the 2021/22 Audit Plan.</p>

Appendix 1: Status of Internal Audit Plan 2020/21

Dept & (Lead)	Service Activity	Fraud risk	Status as at 16 th April 2021
G&H (EC)	<p>Adult Community College</p> <p>To provide support and challenge on the robustness of the updated Financial Regulation document ahead of delivery to the governing body.</p>		Work completed and feedback provided.
G&H (EC)	<p>New: Adult Community College</p> <p>To provide support and challenge to the Board with responsibility for monitoring the transfer of the College's governance structure to a more flexible model in direct relationship with Council governance structures.</p>	No	<p>Work in progress.</p> <p>In relation to the workstreams set up to support the transition – challenges made include:</p> <ul style="list-style-type: none"> • processes to ensure the escalation of issues and risk • how risk and opportunities and mitigations may be captured • the need for proportionate reporting on progress against the actions listed in each workstream's project plan. <p>Internal Audit feedback regarding the draft terms of engagement for the proposed Advisory Board were included within the final proposed document.</p>
<p>Connected and Smart</p> <p>By 2050 people can easily get in, out and around our borough and we have a world class digital infrastructure</p>			
G&H (EC)	<p>Housing Infrastructure Grant (HIF)</p> <p>To provide advice and support as arrangements are developed which ensure Homes for England Housing Infrastructure Grant terms and conditions are properly met.</p>	Yes	<p>Work has been rescheduled into the 2021/22 Audit Plan as the timing of the initial drawdown of grant is being amended. Interim assurance provided by:</p> <p>The use of the HIF grant is one of the specific operational work streams within the council's Better Queensway project management structure, set up to monitor the delivery of the required outcomes and benefits from the regeneration. Therefore the follow up of implementation of the agreed recommendations from the Better Queensway project assurance work, under the Opportunity and Prosperity theme above, will ensure any required immediate improvements in processes for managing HIF funding are addressed.</p>

Appendix 1: Status of Internal Audit Plan 2020/21

Managing Service Delivery

Delivering the internal audit service involves:

- audit planning and resourcing
- managing Audit Plan delivery, which includes overseeing contractor work
- reporting to senior management and the Audit Committee.

Audit Activities	Original Audit Plan Job Resource allocation
Managing the Business	12%
Managing Service Delivery Risks	31%
Key Financial Systems	2%
Grant Claims	22%
Advice and Support	22%
Follow Ups	2%
Contingency	0%
Managing Delivery of the Audit Plan	9%
Total	100%

The days required to revisit and retest action plans from previous reports are included under each heading.

Appendix 1: Status of Internal Audit Plan 2020/21

Analysis Over Executive Director Responsibilities		
All	Cross Cutting	12%
F&R	Finance & Resources	5%
L&D	Legal & Democratic Services	0%
T	Transformation	7%
G&H	Growth & Housing	16%
N&E	Neighbourhoods & Environment	18%
C&PH	Children & Public Health	18%
A&C	Adults & Communities	15%
All	Contingency	0%
All	Managing Delivery of the Audit Plan	9%
	Total	100%

Analysis over the 5 Southend 2050 Themes		
1.	Pride & Joy	5%
2.	Active & Involved	3%
3.	Safe & Well	37%
4.	Opportunity & Prosperity	18%
5.	Connected & Smart	21%
6.	All	16%
	Total	100%

Appendix 1: Status of Internal Audit Plan 2020/21

Risk Watch List	
These are other potential audits that may be considered for inclusion in the Audit Plan during the year should resources permit	
G&H	Building a Safer Future
A&C	Data Quality – Adult Social Care
C&PH	In House Fostering Team
A&C	Liquid Logic Phase 2 – Introduction of Portals
G&H	Empty Homes Strategy
C&PH	SMART Southend
T	Corporate Establishment
F&R	Accounts Payable
N&E	Highways Improvement Plan
N&E	Community Safety
N&E	Cemeteries and Crematorium
F&R	Development of Corporate Approach to Procurement and Contract Management
A&C	Homecare Contract
C&PH	Public Health (including the impact of the new National Institute for Health Protection (NIHP) replacing Public Health England to be formalised and operating from April 2021)
C&PH	Children’s Services Financial Recovery Plan
C&PH	Children Missing from Education
C&PH	Victory Park Academy
F&R	Asset Management of the Corporate Estate
C&PH	Adherence to Terms and Conditions of the Early Years Grant Funding
A&C	Better Care Fund Section 75 Agreement
A&C	Deprivation of Liberty Safeguards (DoLS)
PH	Outcome Realisation of a Commissioned Service – deleted from 2019/20 Audit Plan
F&R	Income Management System – work stalled from the 2019/20 Audit Plan

Appendix 1: Status of Internal Audit Plan 2020/21

N&E	Neighbourhoods and Environment Performance Board – deleted from 20/21 Audit Plan after review of resources and risk profile resulting from impact of Covid-19
A&C	Adult Social Care Service Delivery - deleted from 20/21 Audit Plan after review of resources and risk profile resulting from impact of Covid-19
N&E	Private Sector Housing - deleted from 20/21 Audit Plan after review of resources and risk profile resulting from impact of Covid-19. In addition the service is reviewing delivery processes and arrangements
A&C	Southend Care - deleted from 20/21 Audit Plan after review of resources and risk profile resulting from impact of Covid-19
G&H	Management of the South Essex Homes Partnership Agreement - deleted from 20/21 Audit Plan after review of resources and risk profile resulting from impact of Covid-19. In addition the service area is establishing ways to improve performance management and benchmarking arrangements
A&C	Commissioning of a New Service - deleted from 20/21 Audit Plan after review of resources and risk profile resulting from impact of Covid-19. In addition the service area is establishing ways to improve performance management and benchmarking arrangements
N&E	Environmental Health - deleted from 20/21 Audit Plan after review of resources and risk profile resulting from impact of Covid-19.
C&PH A&C	Follow ups deleted from 20/21 Audit Plan after review of resources and risk profile resulting from impact of Covid-19: Data Quality, Adult Social Care Financial Assessments, Homelessness, Social Care Payments to Individuals and Providers & Social Care Debt Collection
G&H	Housing Pipeline - deleted from 20/21 Audit Plan after review of resources and risk profile resulting from impact of Covid-19
N&E	Order, Delivery and Payment of Highways Works - deleted from 20/21 Audit Plan after review of resources and risk profile resulting from impact of Covid-19
F&R	Treasury Management - deleted from 20/21 Audit Plan after review of resources and risk profile resulting from impact of Covid-19
A&C	Community Grants - deleted from 20/21 Audit Plan after review of resources and risk profile resulting from impact of Covid-19

Appendix 2: Other Audits and Grant Claims

Troubled Families Programme, Payments by Results Scheme Grant 2020/21 - claim January to March 2021

Objective

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

Background

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

- met the required criteria to be considered for entry to the 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 – claim period January to March 2021

Between January 2021 and March 2021, 103 PBR claims were presented to audit, prior to submission to the MHCLG.

Two of the 103 claims were withdrawn because they were found to have been claimed previously. This left 101 claims for submission to the MHCLG.

Ahead of referral of claims to Internal Audit, the Team Manager reviews a minimum of 10% of claims to confirm appropriate evidence has been provided for a PBR claim to be made.

Internal Audit randomly selected 10 claims for review, three of which had been checked by the Team Manager. For all cases, suitable evidence was available to support

- entry into the programme
- a claim for significant and sustained progress.

Going forward

The Troubled Families programme is to extend into 2021/22 and the Council is awaiting details regarding the programme's sign-up conditions for 2021/22 from central government. As such, it will be possible to determine whether there will be any changes to Internal Audit's role in reviewing sample claims to confirm individual cases meet the required criteria for a PBR claim and / or any other requirements that may need to be independently verified.

Appendix 2: Other Audits and Grant Claims

Travel Demand Management Grant

Purpose of Funding

To assist in proactively managing the overall demand on the transport network during the return to education, due to the challenges brought about by Covid-19. Work undertaken included:

- undertaking analysis to identify where additional services may be required
- creation of a messaging matrix, allowing issues within the transport network to be identified and solutions communicated to stakeholders
- development of school travel packs to help inform staff, students and parents / guardians of changes, manage the travel demand during the first term and encourage travel arrangements to be considered ahead of time
- weekly bulletins keeping stakeholders up to date on service changes, ticketing information and tips for keeping safe on public transport.

Conclusion

It was confirmed that government funding had been spent on travel demand management activities, in line with the grant conditions.

Opinion: Unqualified

Appendix 2: Other Audits and Grant Claims

Emergency Active Travel Fund

Purpose of funding

To assist in providing pop-up and temporary solutions to create an environment that is safe for both walking and cycling whilst maintaining social distance and avoiding overcrowding during the Covid-19 pandemic and the period directly after. This can include:

- widening of existing footways
- new temporary footways
- pop-up segregated cycle lanes.

Conclusion

It was confirmed that government funding had been spent on emergency active travel activities, in line with the grant conditions including that:

- it fell within the definition of "capital" for accounting purposes
- work proposed under this grant was awarded in line with State Aid requirements.

Some issues were identified that did not impact on the ability to confirm the grant expenditure, but required attention from the service area around compliance with the Council's Contract Procedure Rules. These have been addressed directly with the service area.

Opinion: Unqualified

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Appendix 3: Audits Revisited

Purpose of these audits

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

Payroll (2019-20)

Original Objective

To assess the robustness of arrangements which ensure staff are paid the correct amount at the right time in line with Southend on Sea Borough Council's (the Council) policies and legislative requirements.

Results

Fully implemented	Substantially implemented	Partially implemented	Not implemented	Closed
1	1	11	4	0

Summary

During the Covid-19 pandemic, the Payroll Team have been working remotely which has resulted in changes to some of their working practices. However, the service has continued to operate and all employees have been paid on time.

Two Officers have continued to be involved in uploading the payment file for the BACS run which has been done via Microsoft Teams.

The Payroll Processing Guide is now available electronically and work is underway to extend the guide to include further detail and ensure it reflects the current ways of working. This will help to ensure all tasks are undertaken correctly, consistently and any issues can be dealt with efficiently.

Prior to Covid-19, payroll paperwork was manually signed to demonstrate that two separate people had input and then checked the information on Business World to ensure its accuracy. As Officers cannot physically sign the paperwork while they are working remotely, they are now electronically typing their initials onto documents. However, this is not a reliable control as anyone in the payroll team could enter payments into the payroll system, either incorrectly or fraudulently, and then type any initials onto the supporting paperwork to indicate that the required checks have taken place. We have made recommendations to enhance the security of the remote working arrangements that payroll confirm are being actioned.

A monthly spot check of payroll transactions is undertaken. This involves reviewing a sample of pay forms and manually input transactions to confirm that two Officers have been involved; one in inputting information to Business World and the second checking that it is correct. For spot checks undertaken prior to Covid-19 there was insufficient evidence available to demonstrate that the spot check was identifying when this input and checking process had not taken place and appropriate follow up with Payroll Officers had taken place.

Appendix 3: Audits Revisited

Since Covid-19, the spot check has continued but is not effective. As mentioned above, anyone in the payroll team could enter a payment on the payroll system and then type any initials onto the document, and the spot check would not be able to identify if the same person had typed both initials.

An Additional Run Net Pay Check is undertaken in addition to the monthly spot check, to confirm that two Officers have been involved in inputting and checking additional run payments. As with the main spot check, there was insufficient evidence to demonstrate this was working effectively.

There is an opportunity to implement more robust and secure working practices within the team, which would involve setting up workflows on Business World that require one person to input and another to authorise a transaction on the system itself. This would mean there is a system enforced segregation of duties and would also streamline the team's processes. This is a long-term piece of work that will require a project group to take it forward.

In the shorter term, it is recommended that the 'Keep Original User' parameter is enabled on Business World so that the system keeps the name of the original user who entered the transaction, allowing Officers to track who has made changes on the system. Payroll confirm that this change has subsequently been implemented.

Every month as part of the draft payroll preparation, deviances of 30% and over from the previous months pay for an individual are checked to confirm they are valid. These deviances are then re-run to confirm the number of transactions identified are the same. Introducing an independent review of the deviances to confirm that they have been appropriately checked to confirm they are valid will help to ensure employees are being paid correctly and help to identify payments that may be made fraudulently or in error.

Due to Business World not being able to be locked down to prevent people inputting while the payroll process is in draft, an 'Audit Net Pay Check' is also undertaken each month. This identifies any changes from the first deviance amount mentioned above, to the amount employees were actually paid, as these amounts should be the same. Every payment is checked and all differences are investigated and noted on the report, but evidence was not always available to confirm any changes in amounts were valid. Any errors found are corrected on the additional pay run or the following month's pay run.

The exercise to confirm that employees receiving the first aid payment are still eligible has not yet been undertaken, which may mean employees still receive this allowance after their certificate has expired. This check has been completed for those in receipt of mental health first aid allowance.

Southend-on-Sea Borough Council

Report of the Strategic Director (Finance and Resources)

to

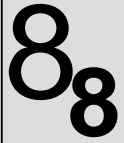
Audit Committee

on

28th April 2021

Report prepared by Shaun Dutton, Counter Fraud &
Investigations Manager

Agenda
Item No.



Counter Fraud & Investigation Team: Quarterly Performance Report

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 Team (CFIT) in delivering the Counter Fraud Strategy and Work Programme for 2020/21.

2. Recommendation

- 2.1 The Audit Committee notes the performance of the Counter Fraud & Investigation Team since the last meeting.**

3. Introduction

- 3.1 Since the last meeting the team has been concentrating on managing its caseload and reducing the backlog of cases awaiting investigation. This backlog resulted from the loss of staff earlier in the year and the pandemic restrictions that needed to be complied with. However, the team are now making clear and steady progress in reducing this.
- 3.2 The reduction of pandemic restrictions now allows the team's investigators to recommence operational activity within the community. We are now actively visiting residents and businesses and interviewing witnesses and suspects.
- 3.3 The recruitment exercise for the Fraud Investigator vacancy has been completed and the new investigator is in post and actively working on investigations. This officer is very experienced in the local government fraud investigation context, and has been able to hit the ground running. He makes an excellent addition to the team and will be an asset to the Council.
- 3.4 This addition completes the current team's complement of staff. This will accelerate the rate at which the team addresses the backlog of referrals and will enable effective proactive initiatives to be conducted in line with the current Work Plan (**Appendix 1**). Work on this is expected to start during the coming quarter. The Work Plan will be reviewed to ensure that the work is effective and focussed on the detection and prevention of fraud against the Council and will be updated to form the basis of the Work Plan for 2021/22.

- 3.5 The team has been involved in 9 cases concerning suspected covid grant-related fraud or errors in payment this quarter with a total value of £96,700. In these cases, £90,000 of the total was prevented from being paid to the claimants. This work was performed in partnership with the Non-Domestic Business Rates and the Internal Audit teams. As such, CFIT cannot take all the credit for these successes and identification of suspect applications and payments is, in large part, due to the vigilance and hard work of these teams.
- 3.6 We have now established a mechanism and procedure to offer a penalty as an alternative to prosecution in Council Tax Reduction Scheme frauds. This ability is provided for by legislation and allows CFIT to offer such a penalty in relevant cases. This is an efficient and cost-effective way of resolving such cases and we have two cases currently awaiting the offer of a penalty. The penalty ranges from £100 to £1,000 based upon the amount of excess Council Tax Reduction the offender has received and in both current cases the penalty offered will be the maximum. We anticipate making greater use of this facility as the team develops.

4. The threat from fraud

- 4.1 The total value of fraud detected or prevented by Local Authorities in 2018/19 is estimated to be £253m.
- 4.2 The total annual loss to Local Authorities from fraud is estimated to be £7.8bn (2017).
- 4.3 A third of all crime in the UK is fraud related.
- 4.4 The areas of highest risk to the Council include Council Tax, Non-Domestic Business Rates, housing and tenancy fraud, disabled parking (Blue Badge) fraud, adult social care, procurement, grant and employee fraud.
- 4.5 CFIT have active investigations in all these areas.
- 4.6 The national fraud guidance for Local Authorities is placing an increased emphasis on proactive fraud prevention initiatives and our current Work Plan (**Appendix 1**) has been guided by this. With the addition of the new investigator to the team and the reduction in pandemic restrictions, it is anticipated that work in this area will commence soon and the Work Plan will be reviewed to ensure we make the best use of this opportunity. This Work Plan will be updated to form the basis of the Work Plan for 2021/22.

5. Investigations

- 5.1 During the 2020/21 financial year, CFIT have dealt with or are investigating 328 cases (66 of these cases commenced prior to 1 April 2020).
- 5.2 Since the last report to the Committee, the team have received 87 new cases. This is an increase (47%) on the previous quarter, and this is expected to continue as the pandemic restrictions ease, as the National Fraud Initiative (see below) progresses, and with the anticipated resumption of proactive initiatives.

5.3 Of this total:

- 238 investigations have been concluded (82 since the last report)
- 90 investigations are active:
 - 50 are currently being investigated.
 - 6 cases are with Legal Services for prosecution.
 - 34 cases are awaiting assignment to an investigator.

5.4 A breakdown of these investigations by category can be found at **Appendix 2**.

5.5 Highlights this quarter include:

- £90,000 worth of Covid grant-related fraud prevented through work in partnership with Non-Domestic Business Rates and Internal Audit.
- 2 safeguarding referrals.
- Process / Policy improvement recommendation reports submitted to Adult Social Care and Traffic & Highways.
- Referrals to other Local Authorities (1), Essex Police (4), HMRC (1), the DWP (5), Public Sector Housing (1), Social Care (1) and Licensing (1).
- An attempted mandate fraud prevented by Accounts Payable (CFIT can take no credit for this apart from a role played in increasing awareness of the issue). Another suspected mandate fraud was confirmed to be a genuine request, following enquiries by CFIT, but shows that Council staff are being vigilant in challenging such requests.
- 4 misused Disabled Persons' Blue Badges recovered.
- 4 cases referred to Legal Services for prosecution:
 - 2 cases of Small Business Rates Relief fraud with a total recoupment of approximately £70,000.
 - 1 case of defrauding the Essential Living Fund
 - 1 case of an environmental offence.
- The establishment of a mechanism to impose Council Tax Reduction penalties. These are specific to Council Tax Reduction Scheme offences and range from £100 to £1,000.

5.6 The benefit generated by the team this year is:

- £1,599 in Council Tax fraud.
- £69,000 in Housing Fraud.
- £13,000 in recovered revenue.
- £ 81,404 in recovered Non-Domestic Business Rates.
- £145,000 in grant fund fraud.
- £20,424 from the National Fraud Initiative (see below)

This totals **£330,427** benefit to the Council from CFIT's activities.

6. Fraud prevention

- 6.1 Active fraud prevention initiatives have been hampered by the focus on reducing the backlog of cases during this quarter. As mentioned above, this backlog is expected to reduce significantly with the introduction of a new investigator to the team and the reduction of pandemic restrictions. The space this creates will be used for proactive activities including initiatives aimed at deterrence and strengthening the Council's defences against fraud.
- 6.2 The Council-wide fraud awareness training continues to be well received. The feedback rates the course as 4½ out of 5 stars from 634 respondents so far. This course is also available to all Southend Councillors who are able to access the Council's ICT systems.
- 6.2 The monthly fraud alerts for all staff continue to reach a wide audience. The reach of this information will be assessed via questionnaire during the next quarter.
- 6.3 This quarter, two post-investigation reports have been issued to other teams in the Council with recommendations for policy or procedure adjustments aimed at increasing the protection to prevent, and early detection of, fraud.
- 6.4 In the coming weeks, CFIT will be delivering a talk on fraud awareness to a local community group. This is the first step in what is planned to be a rolling programme of engagement with residents to increase fraud awareness. The aim of this is to enable residents to recognise and protect themselves against fraud, know how to report it and to be aware of threats against both themselves and the Council.

7. The National Fraud Initiative (NFI)

- 7.1 The NFI is a central government exercise that matches electronic data within and between public sector bodies to identify links that can help prevent and detect fraud. These bodies upload their data to a central service which then produces data matching reports of cases to be followed up. This process runs on a 2-year cycle.
- 7.2 An example of this is matching household non-dependents who have turned 18 with households in receipt of Council Tax Single Person Discount (SPD) (the non-dependent ceases to be such when they reach this age and SPD can no longer be claimed).
- 7.2 CFIT operates as the local coordinator and key contact for the NFI at Southend Borough Council: centrally organising the upload of data and the processing of returns.
- 7.3 Although engagement with this initiative diminished somewhat before the formation of the current Counter Fraud team and, due to the timing of this, the team's involvement began late in the cycle, the most recent NFI exercise assisted in identifying £52,605.48 in recoverable funds for the Council and 15 fraud investigations.
- 7.4 CFIT has been fully engaged in the current cycle and, as a result, the returns are expected to be significantly more than this figure over the next cycle.

7.5 The current cycle is now at the stage where data matching results are being returned for local review and assessment. The Counter Fraud team is engaging with relevant services across the Council, providing training on the use of the data matching reports on the NFI system, the checks that should be made and when to make referrals to the Counter Fraud team.

7.6 The first result from the current cycle has achieved an estimated saving of **£20,424** relating to concessionary travel passes with 851 such passes being cancelled as a result of the NFI work.

8. Corporate implications

8.1 Contribution to the Southend 2050 Road Map

The team's work to reduce fraud, protect the council from fraud and corruption, to pursue offenders and to recoup properties and money from the convicted contribute to the delivery of the Council Ambition and the delivery of all Southend 2050 outcomes. It does this by protecting and recovering the assets and funds that the council holds.

Furthermore, proactive fraud and corruption work, alongside the reactive prosecution of offenders, acts as a deterrent for such activities and assists in the identification of financial loss and loss of assets.

Such proactive counter fraud work can result in reduced costs to the Council by protecting it against potential loss and civil or insurance claims.

8.2 Financial Implications

The work of the Counter Fraud and Investigation Team 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.

As noted at paragraph 5.6 the Counter Fraud and Investigation team has delivered £330,427 benefit to the Council through its activities.

8.3 Legal implications

The Accounts and Audit Regulations 2015 section 3 states 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 Counter Fraud & Investigation Team contributes to the delivery of this.

Where fraud or corruption is proved the Council will:

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

8.4 People implications

People issues that are relevant to delivering individual investigations, or the Workplan, will be considered as part of each piece of work, and Human Resources consulted as appropriate.

8.5 Property implications

Properties could be recovered through the investigation of housing tenancy fraud or assets recovered as the proceeds of crime. Such action will benefit the Council by returning social housing stock for the use of those in most need, recovering the assets of those who seek to profit from criminal behaviour and deterring others from considering such activity.

8.6 Consultation

The progress with investigations and delivery of the Workplan are periodically discussed through monthly meetings with key stakeholders and with Directors before being reported to Corporate Management Team and the Audit Committee.

8.7 Equalities Impact Assessment

The relevance of equality and diversity issues is considered during the initial planning stage of each investigation and piece of development work delivered, with Human Resources consulted as appropriate.

8.8 Risk assessment

Failure to operate a strong anti-fraud and corruption culture puts the Council at risk of increased financial loss from criminal activity. Such a culture should be led and supported by the Senior Management Team.

While risk cannot be eliminated from the Council's activities, implementing counter fraud and corruption policies and culture will contribute to managing this more effectively.

8.9 Value for money

An effective Counter Fraud and Investigation Team should save the Council money by:

- Reducing the opportunities to perpetrate fraud; this is reducing potential losses to future budgets.
- Detecting fraud promptly and applying relevant sanctions where it is proved; this limits the losses to fraud and corruption.
- Pursuing perpetrators to recover losses and to seek compensation; this limits the losses to fraud and corruption.

- Recovering properties; this reduces the strain on the social housing stock and reduces the cost of temporary accommodation to future budgets.
- Limiting the cost of investigation and pursuit of offenders by the application of alternate sanctions where appropriate; this provides a cost-effective service.
- Generate an income for the Council through the provision of counter fraud awareness training to the Council's partners and service providers and the provision of an investigation/prosecution service to appropriate partners.

8.10 Community Safety Implications

These issues are only considered if relevant to a specific investigation, or piece of development work, undertaken.

8.11 Environmental Impact

These issues are only considered if relevant to a specific investigation, or piece of development work, undertaken.

Appendices

Appendix 1 – Counter Fraud Work Plan 2020/21

Appendix 2 – Breakdown of CFIT investigations

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Appendix 1 – Counter Fraud Work Plan 2020/21

KEY:

Denotes proactive initiatives
Denotes prevention/protection initiatives
Denotes development activities

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Area	Activity	Target date	Current status	Resource requirement (officers)	Responsible officer	Completed date
Counter fraud	Maintain business as usual through management of the caseload, timely investigation of referrals towards a prompt, efficient and fair resolution, proactive fraud detection initiatives and the provision of advice and training to the wider council.	Ongoing	Business as usual is being maintained, the team is now at its full complement, albeit it with an investigator on maternity leave, a programme of work (below) has is being delivered. This has been hampered through staff sickness and maternity leave.	4	Shaun DUTTON	Ongoing
Business Rates	Pro-active audit of empty commercial premises.	TBD	This is dependent upon the pressures on the Business Rates team easing. Therefore aspirational at this time.	2-4	Shaun DUTTON	

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Council Tax	Joint working agreement with DWP for cases involving the Council Tax Reduction scheme.	TBD	A meeting with the DWP was held but information provided by the DWP suggests that their fraud investigation capability is not engaging at a local level. This makes a local joint working agreement impossible and therefore this activity is on hold pending resumption of local DWP investigations. This situation will be monitored.	2	Shaun DUTTON Caroline MERCIECA	ON HOLD
Council wide	Internal publicity campaign to highlight the work and reporting mechanisms of the fraud team.	Ongoing	This was in progress during the previous Work Plan but interrupted by the Covid-19 pandemic. Some of this is dependent upon the reoccupation of Council buildings. This is partially fulfilled through the distribution of monthly fraud updates to staff and may also be partially fulfilled through the instigation of fraud awareness training. These activities should be ongoing throughout the year. A message was sent to all Council staff in November 2020 highlighting the risks of fraud and the need for vigilance and awareness.	1	Shaun DUTTON	Ongoing

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Council wide	Fraud awareness training to be developed and mandated for all staff.	September 2020	The course content has been finalised and delivery by e-learning has been agreed. The presentation of the course is in its final stages and we expect the course to be made available to all staff in the near future. It is anticipated that Senior Management support will be provided to make this course mandatory for all staff. This course has been finalised and is available to all SBC staff.	1	Shaun DUTTON	November 2020
Council wide	Fraud awareness training to be delivered to all new staff as part of the induction process.	September 2020	If the above is successful, the online training will be mandatory for all new starters. Therefore, a shorter presentation will be developed to introduce new staff to fraud awareness during induction training.	1	Shaun DUTTON	November 2020
Housing	Pro-active audit of SBC tenancies.	September 2020	This date is aspirational depending on how quickly the team recovers the backlog of work created by the Covid-19 crisis. Discussions will be held with South Essex Homes to determine how to best identify tenancies most at risk of fraud. This has been delayed due to a backlog of investigations and a lack of human resources.	4	Shaun DUTTON James COUSEN	

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Housing	Postal information campaign to targeted tenancy areas to encourage reporting of concerns about fraud.	TBD	As above, discussions will be held with South Essex Homes to determine how to best identify areas most at risk of fraud. The target date will be reviewed dependent upon other operational workloads. This has been delayed due to a backlog of investigations and a lack of human resources.	2	Shaun DUTTON James COUSEN	
Housing	Review of SBC tenancy terms and conditions to strengthen the counter fraud message and encourage cooperation with the counter fraud team.	TBD	The South Essex Homes' tenancy T&Cs are due to be reviewed. South Essex Homes are aware that we wish to contribute. We are waiting for information as to when this review will take place. This has been delayed by South Essex Homes due to pandemic restrictions.	1	Shaun DUTTON	
Council wide	Fraud risk and process analysis of areas of the Council's business at high risk of fraud: <ul style="list-style-type: none"> • Procurement • Housing • Housing applications • School admissions • Blue badge applications • Council Tax • Business Rates • Online services • Social Care Direct payments • Recruitment • Others dependent upon current research 	Start November 2020	Planning. This is dependent upon how the team and its workload develops. This has been delayed due to a backlog of investigations and a lack of human resources. CFIT continue to issue post-investigation reports recommending process/policy improvements that would provide a greater protection from fraud where appropriate.	2-4	Shaun DUTTON	

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	Policy review, process improvement recommendations where appropriate, service-specific training to be delivered where required.					
Blue Badge	Review of the process on how Blue Badge fraud is dealt with and training for ACPOA staff. Pro-active Blue Badge fraud exercise, possibly a joint exercise with ACPOA and Essex Police.	February 2021	Planning. Enquiries are being made to identify a means of tracing the keepers of offending vehicles if they do not provide their details (Essex Police and Traffic Management). This has been delayed due to a backlog of investigations and a lack of human resources.	4	Shaun DUTTON	
Business Rates	Research project to determine best practice and effective methods of combatting Business Rates fraud. Establish a working group between CFIT, Trading Standards, Business Rates (BR) and Legal Services to review the Council's capabilities and determine realistic opportunities for prevention, detection and action against offenders.	March 2021	The research project has been assigned and initial enquiries among other local authorities have started. This has been delayed due to a backlog of investigations and a lack of human resources. A meeting has been discussed with some of the interested parties regarding the BR issue but was interrupted by the Covid-19 crisis. This may have to wait until the pressure on the BR team is eased.	2	Shaun DUTTON Caroline MERCIÉCA	

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Counter fraud	Explore joint working opportunities with other SBC teams, particularly parking, Regulatory Services and Trading Standards. Explore the possibility of information/intelligence sharing hub.	Ongoing	Some initial conversations, albeit superficial, have taken place. This may be dependent upon how the Covid-19 pandemic pans out and the pressure some of these teams are working under.	2	Shaun DUTTON	
Counter fraud	Develop a financial investigator capability.	Late 2021	This aspiration has been delayed by circumstance and now cannot be started until the latter part of 2021.	2	Shaun DUTTON Caroline MERCIECA	Delayed
Various	Investigate the use of technology and data matching to identify and target the risks of fraud against the Council. Develop targeted proactive exercises to act on the results.	TBD	This is aspirational and dependent upon a variety of factors such as information sharing agreements, the availability, cost and complexity of tools required to do this, staff training etc. Enquiries into the feasibility of this will be conducted as and when workload commitments allow.	2-4	Shaun DUTTON	
Counter fraud	Develop 'income generation' opportunities through: <ul style="list-style-type: none"> Counter fraud training initiatives for SBC partners and service providers An investigation and prosecution service to local Housing Associations 	TBD	This is aspirational at this time and development will be dependent upon how the team progresses over the coming 12 months. This cannot be explored at the expense of our ongoing workload commitments or proactive and prevention activities.	TBD	Shaun DUTTON	

Appendix 2 - Breakdown of CFIT investigations as of April 2021¹

Category	Cases since last report (January 2021)	Total new cases since 1 April 2020	Active investigations (being investigated, awaiting allocation or with Legal Services) <small>Cases that started prior to 01/04/2020 in parentheses.</small>	Closed investigations since 1 April 2020 <small>Cases that started prior to 01/04/2020 in parentheses.</small>
Transport (Blue Badge, parking permits etc.)	9	28	9	24 (5)
Schools (including Early Years)	0	1	0	1
Council Tax and Business Rates²	35	110	51 (8)	92 (25)
Cybercrime	1	2	0	2
DWP	3	9	0	11 (2)
Grant Fund fraud	1	4	2 (1)	3
Housing (unlawful subletting, Right to Buy fraud etc.)	25	69	15 (3)	67 (10)
Money Laundering	0	1	1	0
Procurement	1	1	2 (2)	1
Social Care (Direct Payment fraud etc.)	2	5	3 (1)	5 (2)
Employee	3	7	6 (4)	7 (2)
Miscellaneous (immigration, fraudulent cheques, mischievous referrals etc.)	7	25	1	25 (1)
TOTALS	87	262	90 (19)	238 (47)

¹ Figures are correct as of 16/04/2021

² These figures include covid-19 relief grant fraud as they are administered by Business Rates

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Southend-on-Sea Borough Council

Report of the Executive Director (Finance and Resources)

to

Audit Committee

on

28th April 2021

Agenda
Item No.

9 9

Report prepared by: Andrew Barnes, Head of Internal Audit

Internal Audit Planning 2021/22 update

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To update the Audit Committee on the revised approach to the production of the internal audit plan for 2021/22 only.

2. Recommendations

- 2.1 The Audit Committee notes the revised timing for the approach to the production of the internal audit plan for 2021/22 only.**

3. Internal Audit Planning Approach

- 3.1 Internal Audit's usual timetable involves undertaking the planning work for the following financial year in the period from January to March, and then reporting this to the Audit Committee at the April meeting.
- 3.2 However as a result of the continuing covid-19 pandemic, there remained much uncertainty about the impact of the pandemic and immediate next steps in January 2021 when the team were about to commence the detailed audit planning work. It was agreed with the Executive Director (Finance and Resources) that undertaking the audit planning work at a time of such uncertainty would be counter-productive, as there would need to be many alternatives and contingencies put in place. Therefore the specific detailed audit planning work would be delayed until the following quarter, with the suite of Audit Planning documentation being reported to the Audit Committee at the next meeting.
- 3.3 In addition the audit plan for 2020/21 was fully reviewed and updated for the October 2020 meeting to reflect the increased knowledge about the impact of Covid-19 at that time.
- 3.3 Despite this one-off change in timing, audit knowledge and intelligence gathering continues in the background on an ongoing basis all the time, with decisions made about the optimum use of internal audit resource as issues and risks arise and priorities are flexed in response to those issues and risks, as is demonstrated by the updated planned audit work for 2020/21 reported in the quarterly update at agenda item 7.

4. Reasons for Recommendations

4.1 Internal audit are an assurance function providing assurance to assist the Audit Committee to effectively discharge its responsibilities as per its Terms of Reference. Producing the optimum audit plan will assist the Audit Committee with obtaining the appropriate assurance that the Annual Governance Statement appropriately reflects the conditions at the Council for the year being reported upon, and given the significant uncertainties caused by the Covid-19 pandemic at the time that the detailed audit planning work would usually be undertaken, better audit planning will be possible now that the impact of the pandemic is better understood and beginning to reduce.

5. Corporate Implications

6.1 Contribution to the Southend 2050 Road Map

Audit work provides assurance and identifies opportunities for improvements that contribute to the delivery of all Southend 2050 outcomes.

6.2 Financial Implications

The Audit Plan will be delivered within the approved budget.

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

6.3 Legal Implications

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

6.4 People Implications

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

6.5 Property implications

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

6.6 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.

6.7 Equalities and Diversity Implications

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

6.8 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 develop the team, while processing work in a timely manner and providing strategic leadership to the team and support to the Council
- 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 while the service is being rebuilt.

6.9 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 periodically considers whether it provides a value for money service.

6.10 Community Safety Implications

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

6.11 Environmental Impact

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

7. Background Papers

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

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Audit Committee Update

Helping audit committees to be effective

Issue 34

March 2021

The annual governance statement for 2020/21

Local auditors and internal audit working together

Regular briefing on new developments

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Introduction

Dear audit committee member,

Welcome to the latest issue of audit committee update from the CIPFA Better Governance Forum. This resource aims to support audit committee members in their role by helping to keep them up to date.

In the latest issue, we provide details of new guidance from CIPFA to local government on annual governance statements for 2020/21 that takes into account the impact of the pandemic and the implementation during the year of the CIPFA Financial Management Code. There is also a copy of a recent article on understanding the different roles and responsibilities of internal audit and external audit. We know that is an area that some audit committee members find difficult if they have had no prior experience of dealing with auditors.

The remainder of this issue focuses on keeping you up to date with our regular briefing covering recent reports and guidance.

Overall, I hope you will find this issue interesting, informative and helpful in your work on the committee.

Best wishes,

Diana Melville

CIPFA Better Governance Forum.

Sharing this document

Audit Committee Update is provided to subscribers of the Better Governance Forum for use within their organisations. Please feel free to circulate it widely to your organisation's audit committee members and colleagues. It can also be placed on an intranet. It should not be shared with audit committee members of organisations that do not subscribe to the Better Governance Forum or disseminated more widely without CIPFA's permission.

Audit Committee Update is covered by CIPFA's copyright and so should not be published on the internet without CIPFA's permission. This includes the public agendas of audit committees.

Receive our briefings directly

A link to this briefing will be included in the newsletter for subscribers to the CIPFA Better Governance Forum. It can then be shared with that organisation's audit committee members.

If you have an organisational email address (for example jsmith@mycouncil.gov.uk) then you will also be able to register on our website and download any of our guides and briefings directly. To register please visit: www.cipfa.org/Register.

Webinars and training for audit committee members in 2021 from CIPFA

Update for Police Audit Committee Members

This webinar is suitable for members of the joint audit committees supporting police and crime commissioners (PCCs) and chief constables. It is run in conjunction with CIPFA's Police and Fire Network.

- Tuesday 25 May

Introduction to the Knowledge and Skills of the Audit Committee

Provisional dates for this are:

- 22 and 23 June (morning only)
- 8 and 9 September (morning only)

Introduction to the Knowledge and Skills of the Police Audit Committee

Provisional dates for this are:

- 15 and 16 September (morning only)

Update for Local Authority Audit Committee Members

This webinar will provide an update for local authority audit committee members on the annual governance statement for 2020/21. Provisional date July 2021.

Full programme details and booking information for webinars in 2021 will be announced later in the year and will be available on the [CIPFA website](#) in due course.

In-house training, facilitation and evaluation of your audit committee

In-house training, webinars and guidance tailored to your needs are available. Options include:

- key roles and responsibilities of the committee
- effective chairing and support for the committee
- working with internal and external auditors
- Public Sector Internal Audit Standards
- corporate governance
- strategic risk management
- value for money
- fraud risks and counter fraud arrangements
- reviewing the financial statements
- assurance arrangements
- improving impact and effectiveness.

We can also undertake an effectiveness review of the committee, providing feedback on areas the committee can improve on and supporting the development of an action plan.

For further information, email diana.melville@cipfa.org or visit the [CIPFA website](#) for further details on the support we have available for audit committees.

The annual governance statement 2020/21

What the audit committee needs to know

The requirements of the annual governance statement

Each year local government bodies must publish an annual governance statement (AGS) in accordance with the regulations issued by the appropriate government. The statement contains the results of the annual review of the effectiveness of internal control and should be in accordance with Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016).

The Framework and core requirements for the AGS have not changed. Earlier issues of [Audit Committee Update](#) have addressed the audit committee role in reviewing the AGS for their organisation and highlighted good practice. CIPFA has issued additional guidance for the 2020/21 AGS in [CIPFA Bulletin 06](#).

Issues for 2020/21

The purpose of the new guidance is to consider the impact of COVID-19 on the governance arrangements of local government bodies and how this might be included in the AGS. The impact would vary between different bodies but were likely to include:

- adaptations to reflect new ways of working and emergency arrangements
- changes to 'business as usual' activities, including cessation or reduced frequency or scale of activities
- longer-term changes to priorities, programmes, strategies and plans as a result of the impact of the pandemic on the organisation and the local area.

Over the course of 2020/21 changes would have been made as a reaction to unfolding events rather than planned in advance. For example, a decision might have been made in April 2020 to temporarily suspend or postpone the operation of an internal control, assuming that it could be resumed later in the year. Changing circumstances might have meant that the control did not in fact operate at all. So it is only with the annual review that the true impact on the governance arrangements might become clear.

Some of the impacts may not be significant or there may be alternatives that could be considered sufficient. Where there are significant issues emerging then they may need to be highlighted in the AGS and the action plan should identify the steps that will be taken to address them.

Implementation of the Financial Management Code during 2020/21

A key goal of the Financial Management (FM) Code is to improve the financial resilience of organisations by embedding enhanced standards of financial management. The FM Code is due to be fully implemented in local government bodies in 2021/22 with 2020/21 being described as a shadow year. Given the challenges to financial resilience that many local government bodies have experienced in 2020/21 progress in the implementation of the FM Code is important.

For this reason CIPFA also included with Bulletin 06 a requirement to include an assessment of compliance with the principles of the FM Code. Where there are outstanding matters or areas for improvement these should be included in the AGS action plan.

Timetables for the AGS for 2020/21

For English local government bodies the Ministry of Housing, Communities and Local Government has issued amendments to the Accounts and Audit Regulations 2015. The [Accounts and Audit \(Amendment\) Regulations 2021](#) make changes to the timetables for signature, publication and audit of the statement of accounts and AGS for 2020/21.

The exercise of public rights should take place no later than the first working day of August 2021. This means that authorities have an additional two months to prepare their financial statements and the AGS. The date for publication, which is also the target date for the completion of the external audit, is 30 September. These dates would apply to both the 2020/21 and 2021/22 statements.

All external auditors have had challenges from conducting external audits remotely and in England there have been additional challenges as a result of auditor resource pressures. As a consequence there are likely to be further difficulties experienced in 2021. Each authority will be different but if it is possible to prepare the financial statements and AGS to be ready for audit before 31 July then that might help external audit firms to stagger their workload. From the point of view of supporting better accountability CIPFA does support the principle of earlier publication but also appreciates the unusual circumstances currently being experienced.

Other aspects to consider

The guidance also recognises that some of the usual sources of assurance might not be available or may provide less assurance than in previous years. [Issue 33](#) of Audit Committee Update included an article on the CIPFA guidance about the head of internal audit (HIA) annual opinion. When reviewing the AGS the audit committee should be aware of any limitations of scope on the HIA annual opinion.

Role of the committee

From the audit committee's point of view the review of the AGS is a good opportunity to take stock of governance, risk and control arrangements. The committee should also consider their arrangements in the context of the current challenges facing the organisation and its plans and objectives for the future. This will help to ensure that arrangements can remain fit for purpose.

Key questions for the committee

Questions to discuss with officers leading the annual review of governance.

1. Has it been possible to obtain sufficient assurance to support the conclusion on the adequacy of governance arrangements?
2. What impact has the COVID-19 pandemic had on our governance arrangements?
3. What significant issues are emerging from the review?
4. What are the implications for our governance arrangements in 2021/22?

Diana Melville

Governance Advisor, CIPFA

Local auditors and internal audit working together: myths and reality

This article first appeared in [Public Finance](#).

For those of us with an audit background it is usually pretty clear what our separate roles, objectives and professional standards are. However, we are often asked by clients and audit committees: “What’s the difference between internal and external audit?”

Common assumptions are that auditors can be used interchangeably, with internal auditors helping out the external auditors on the financial statements audit or that an audit undertaken to satisfy the objectives of a financial audit means that there’s no need for an internal auditor to examine that area too. While it is essential that both sets of auditors have a positive and constructive relationship, findings and plans must always be within the framework of their respective professional standards and objectives.

The objectives of internal audit and external audit

While internal and external auditors share an interest in the outputs of each other’s work, fundamentally the two sets of auditors are trying to achieve different things.

Internal auditors provide independent assurance to help improve an organisation’s operations and accomplish its objectives. They focus on the effectiveness of governance, risk management and control arrangements, evaluate them and identify areas for improvement.

External auditors are responsible for issuing an opinion on whether the financial statements present a true and fair view. In local authorities and other areas of the public sector, the auditors also give commentary on the arrangements in place for securing value for money. External auditors have statutory powers such as the issue of public interest reports, statutory recommendations and the requirement to respond to valid objections from local electors.

Professional standards

Each profession has its own set of standards to which they must adhere, developed to meet the differing needs of the auditors.

Internal auditors in the UK public sector work to the Public Sector Internal Audit Standards (PSIAS), which encompass the mandatory elements of the Institute of Internal Auditors International Professional Framework. There are different standard setters for different parts of the public sector and in some cases for the devolved governments. CIPFA is the standard setter for internal audit in UK local government.

External auditors work to the International Standards on Auditing (ISAs) and local auditors operate under the Code of Audit Practice that defines the scope of their work in accordance with the Local Audit and Accountability Act 2014. In England the Code is set by the National Audit Office and approved by Parliament. Audit Wales, Audit Scotland and the Northern Ireland Audit Office also set codes that are approved by the devolved governments. All the national audit bodies use the principles of public audit when developing their codes, which includes a wider scope to comment on aspects of the stewardship of public funds.

Regulation and accountability

If auditors are members of a professional body, there will be responsibilities and disciplinary procedures to hold them accountable. Internal audit’s work should be overseen by the audit

committee and leadership team to whom the head of internal audit will report on performance and professional standing, known as the *Quality Assurance and Improvement Programme*.

External auditors' work is also subject to professional oversight within their firm and externally through the regulatory bodies, including in England the Financial Reporting Council and the ICAEW.

Opportunities for working collaboratively

Can internal auditors and external auditors work together or rely on each other's work? Recent developments such as the challenges in the local audit market and the Redmond Review have focused attention on this as a potential solution. It isn't as simple as that for a number of reasons.

First and foremost, internal auditors have different objectives and undertaking financial statements audit would not help internal audit to achieve those objectives.

Secondly, local auditors can only use the work of internal audit in accordance with ISA 610 (UK). This prohibits local auditors from using internal auditors to provide direct assistance on the financial statements audit.

Thirdly, internal audit teams often have their own resourcing pressures, so the recruitment and retention of skilled auditors is not just a local audit problem.

Where auditors can and should collaborate is the sharing of intelligence and knowledge. The work of internal audit can be used to inform the local auditor's understanding of the organisation, its risks and controls. The internal auditor will want to know of any control weaknesses identified as a result of the financial statements audit, and any associated operational or financial risks.

There is a greater opportunity for either joint working or for the work of internal audit to be used more directly in the area of value for money work. This area of the local audit is not directly carried out under the ISAs but will be shaped by the respective Code of Audit Practice and legislation for the relevant government of the UK. In England the new code for the 2020/21 audits will include a new VfM commentary that will discuss the audited body's arrangements for financial sustainability, governance and maintaining economy, efficiency and effectiveness. Any areas of significant weakness will be identified, and associated recommendations made for management to address.

With stretched resources and the changed dynamics in auditor relationships over the last few years, internal auditors and local auditors may not have talked as often as is desirable. The Redmond Review has recommended that local auditors should recognise that internal audit work can be a key support and the new Code of Audit Practice provides the opportunity for a reset of auditor relationships. CIPFA would like to see all auditors taking this opportunity. A subsequent step will be to engage the leadership team and audit committee so that there is clarity about such plans and how they will work in practice.

Expectations of each other

What does good practice look like? External and internal auditors should meet periodically throughout the year to discuss emerging risks and share their insights. With the new Code of Audit Practice in place for the 2020/21 year, it will be more important than ever that the two audit teams engage to discuss their work plans, emerging findings and whether these align or overlap.

While there are barriers to direct reliance on work from one side to another, both functions provide an independent assessment of, among other areas, an audited body's control environment. Audit committees have a responsibility for oversight of the implementation of actions by management in response to recommendations raised by both internal and external audit. With the increased scope of the VfM work under the revised NAO Code, it is important that messages delivered, while potentially different in focus, are giving consistent feedback to facilitate effective governance.

What would CIPFA like to see?

CIPFA would encourage internal and external auditors to more proactively engage with one another to share information, insights and areas of concern and align recommendations where possible. The audit teams should work together to help audit committee members understand the differences and synergies in their work programmes and encourage effective oversight.

CIPFA is working to produce resources on collaboration between internal and external audit in a local authority context and would welcome any feedback from practitioners of examples of the cornerstones for how effective relationships have been achieved.

Diana Melville and Ellen Millington, CIPFA

Recent developments you may need to know about

Legislation and regulations

The Local Government and Elections (Wales) Act

The [Act](#) received royal assent in January 2021. It contains provisions to amend the constitution of audit committees in councils in Wales requiring one third of the membership to be lay persons. The committee's name will change to 'governance and audit committee' and the chair must also be a lay member.

The Act also contains provisions for the review of council performance including an annual self-assessment and a panel performance assessment. The governance and audit committee will have the responsibility to review the draft performance assessment report before publication. The commencement order for these provisions has not been issued yet.

Reports, recommendations and guidance

CIPFA consultation on local government Prudential Code

Changes include adding a focus on sustainability and that borrowing for debt-for-yield investment is not permissible under the Prudential Code, as it does not constitute the primary purpose of investment and represents unnecessary risk to public funds.

[Prudential Code Consultation](#)

There is also new consultation on the Treasury Management Code, comprising an enhanced focus on knowledge and skills and training, including audit committee members undertaking the scrutiny of treasury management.

[Treasury Management Code consultation](#)

Governance risk and resilience

The Centre for Governance and Scrutiny and Localis have developed material to support individual council officers and councillors to play their part in understanding, and acting on, risks to good governance. It provides examples of positive and negative behaviours in the conduct of governance and can be a useful resource to support the annual review underpinning the annual governance statement. [Governance risk and resilience](#)

Financial Resilience Index

CIPFA has published a new tool showing financial resilience indicators for the financial year 2019/20. It is accessible from the CIPFA website and allows individual authorities to be compared against other authority groups. [Financial Resilience Index 2021](#)

Lessons from public interest reports

External audit firm Grant Thornton have published a report drawing lessons from three public interest reports published in the last year. It considers financial sustainability, governance and culture. In particular it includes a section on the role of the audit committee. [Lessons from recent public interest reports](#)

Rapid review reports

Audit committee members are likely to be aware of recent difficulties at the London Borough of Croydon and Nottingham City Council. Rapid review reports have been completed to identify

the causes of their problems and next steps. While these reports reflect factors specific to those councils it is useful for audit committee members to be aware of any 'lessons learned' or risks that could be relevant for their organisation.

[Rapid Review Nottingham](#)

[Rapid Review Croydon](#)

Good practice guidance: Fraud and Error

The report provides an overview of risks and good practice from the National Audit Office's Fraud and Error Audit Framework. [Good Practice: Fraud and Error](#)

Fraud and Corruption Tracker

CIPFA's latest national report estimates that for local authorities in the UK the total value of fraud identified and prevented in 2019/20 is approximately £239.4m. [Fraud and Corruption Tracker](#)

Local auditor reporting in England tool

The [National Audit Office](#) has launched a map to assist access to local audit reports for councils, police and health bodies. The map can be used to see where auditors have issued non-standard reports locally in the NHS and local government in England.

PSAA Annual Report on Audit Quality

Monitoring Report for 2020 covering the work of local auditors appointed by PSAA for the 2018/19 financial year. [Annual Audit Quality Monitoring Report 2020](#)

The NHS external audit market

A paper from the Healthcare Financial Management Association says "We have been told 'the NHS external audit market is broken' by both NHS organisations and auditors themselves."

[NHS external audit market](#)

Good practice in annual reporting February 2021

A good practice resource from the National Audit Office setting out principles for good annual reporting. It provides illustrative examples taken from public sector organisations. [Good practice in annual reports](#)

Local Government in Scotland

Audit Scotland overview reports that COVID-19 will drive large rises in costs and spending, combined with falling income. [Financial Overview 2019/20](#)

Digital progress in local government

Audit Scotland report shows that responding to COVID-19 has increased the pace at which Scotland's 32 councils are delivering services through digital technology. [Digital progress in local government](#)

Local government ethical standards: progress made against best practice recommendations

The Committee on Standards in Public Life has published progress made by local authorities against best practice recommendations made in its report, Local Government Ethical Standards. This appears to show good progress being made. [Summary results](#) are available on their website.

Previous issues of Audit Committee Update

You can download all the previous issues from the CIPFA Better Governance Forum website. Click on the links below to find what you need.

Principal content	Link
Please note the content from some earlier issues has been replaced by more recent issues and so they are not listed below.	
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
Issues from 2014	
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2017 Edition of the Public Sector Internal Audit Standards, Risks and Opportunities from Brexit	Issue 23

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CIPFA Statement on the Role of the Head of Internal Audit External Audit Arrangements for English Local Government Bodies	Issue 29
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