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CHIEF EXECUTIVE'S OFFICE

CHIEF EXECUTIVE Fiona Marshall

16 March 2018

Dear Councillor

You are summoned to attend the meeting of the;

AUDIT COMMITTEE

on MONDAY 26 MARCH 2018 at 3.00 pm.

in the Council Chamber. Maldon District Council Offices, Princes Road, Maldon.

A copy of the agenda is attached.

Yours faithfully

Chief Executive

COMMITTEE MEMBERSHIP CHAIRMAN Councillor P G L Elliott

VICE-CHAIRMAN Councillor E L Bamford

COUNCILLORS A S Fluker

B E Harker M S Heard R Pratt, CC

A K M St. Joseph Mrs M E Thompson

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AGENDA AUDIT COMMITTEE

MONDAY 26 MARCH 2018

1. Chairman's notices (please see overleaf)

2. **Apologies for Absence**

3. **Minutes of the last meeting** (Pages 5 - 10)

To confirm the Minutes of the meeting of the Audit Committee held on 7 December 2017, (copy enclosed).

4. **Disclosure of Interest**

To disclose the existence and nature of any Disclosable Pecuniary Interests, other Pecuniary Interests or Non-Pecuniary Interests relating to items of business on the agenda having regard to paragraphs 6-8 inclusive of the Code of Conduct for Members.

(Members are reminded that they are also required to disclose any such interests as soon as they become aware should the need arise throughout the meeting).

5. **Quarterly Review of Corporate Risk** (Pages 11 - 24)

To consider the report of the Director of Resources (copy enclosed).

6. **Review of Risk Management Policy** (Pages 25 - 44)

To consider the report of the Director of Resources (copy enclosed).

7. **Appointment of External Auditors** (Pages 45 - 46)

To consider the report of the Director of Resources (copy enclosed).

8. **Accounting Policies** (Pages 47 - 62)

To consider the report of the Director of Resources (copy enclosed).

9. <u>External Audit - Certification of Claims and Returns Annual Report 2016 - 17</u> (Pages 63 - 80)

To consider the report of the Director of Resources (copy enclosed).

10. External Audit Update (Pages 81 - 128)

To consider the report of the Director of Resources (copy enclosed).

11. **Internal Audit Update** (Pages 129 - 182)

To consider the report of the Director of Resources (copy enclosed).

12. Any other items of business that the Chairman of the Committee decides are urgent

NOTICES

Sound Recording of Meeting

Please note that the Council will be recording any part of this meeting held in open session for subsequent publication on the Council's website. At the start of the meeting an announcement will be made about the sound recording. Members of the public attending the meeting with a view to speaking are deemed to be giving permission to be included in the recording.

Fire

In event of a fire, a siren will sound. Please use the fire exits marked with the green running man. The fire assembly point is outside the main entrance to the Council Offices. Please gather there and await further instruction.

Health and Safety

Please be advised of the different levels of flooring within the Council Chamber. There are steps behind the main horseshoe as well as to the side of the room.

Closed-Circuit Television (CCTV)

This meeting is being monitored and recorded by CCTV.



MINUTES of AUDIT COMMITTEE 7 DECEMBER 2017

PRESENT

Chairman Cllr P G L Elliott

Vice-Chairman Cllr E L Bamford

Councillors A S Fluker, B E Harker, M S Heard, A K M St. Joseph

and Mrs M E Thompson

669. CHAIRMAN'S NOTICES (PLEASE SEE OVERLEAF)

The Chairman drew attention to the list of notices published on the back of the agenda.

670. APOLOGIES FOR ABSENCE

An apology for absence was received from Councillor R Pratt.

671. MINUTES OF THE LAST MEETING

RESOLVED that the Minutes of the meeting of the Committee held on 31 August 2017 be approved and confirmed.

672. DISCLOSURE OF INTEREST

Councillor M S Heard declared a pecuniary interest in relation to Agenda Item 5 – Quarterly review of Corporate Risk – as he was employed by Essex Police as an Internal Auditor. Councillor Heard had been advised that this position may be perceived by the public as prejudicial and he would, therefore, withdraw from the meeting whilst this item was being discussed.

Councillor Heard left the meeting at this point.

673. QUARTERLY REVIEW OF CORPORATE RISK

The Committee considered the report of the Director of Resources providing an update on the position at the end of Quarter 2 (30 September 2017) on the corporate risks included within the Corporate Risk Register 2017/18.

The Director of Resources provided an update of corporate risks that had been removed from the corporate risk register as the risk scores had been reduced to within the Council's accepted tolerance:

- Risk 6 Failure to have an adopted Local Development Plan (LDP) the Council's LDP had now been adopted;
- Risk 12 Failure of the Council to influence regional partners, to support and encourage economic prosperity and inward investment to the Maldon District this risk had been reduced since the employment of the Economic Development Manager and following his work with the Haven Gateway and other partners.
- Risk 19 Lack of Access to Legal Resource this risk had been reduced as there were two fixed-term Deputy Monitoring Officers now in place.

The Director of Resources drew Members' attention to section 3 of the report – Summary of Key Issues and the request from Members at the last meeting of this Committee to re-visit certain risks. The Director of Resources then invited the Director of Customers and Community to speak on this.

The Director of Customers and Community advised that the risk regarding resident perception of crime had been redefined. The report showed how this risk could be mitigated and addressed.

Risk: Lack of visible policing undermines confidence in public safety

Members were given a copy of the scoring matrix for the corporate risk register and discussed the risk score for this risk. The main risk to the Council would be one of reputational damage from adverse media coverage.

Councillor A K M St. Joseph arrived at this point in the meeting.

Members raised concern with the definition of the risk and the Director of Customers and Community advised that the clear message coming from the Community Safety Partnership was around confidence in policing.

This item was debated by Members and it was suggested that the risk be redefined as "failing to engage with the public over community safety issues". The Director of Customers and Community was asked what the outcomes would be to make this a zero risk and, in response, he stated that it was necessary to see how this risk applied to the Council. This was a difficult risk to ascertain as it depended on other partners. The Committee was advised that the Overview and Scrutiny Committee were undertaking a piece of work looking at the relationship with the police, funding and priorities. If Members wished to retain a corporate risk, then it should be around the Community Safety Partnership and its activities.

The Chairman then requested that Members come to a decision on the scoring for this risk.

Councillor E L Bamford proposed that the risk be defined as:

"Lack of confidence in police partnerships with a view to delivery of public safety particularly in rural areas".

This was duly seconded and agreed.

The Director of Customers and Community asked Members what they expected the outcome of this risk to be and Members suggested the following:

- that the Community Safety Partnership increased liaison with police;
- that residents be encouraged to report crime;
- policies be followed to reduce the fear of crime.

It was agreed that the score for this risk be set at 6.

Councillor M S Heard returned to the meeting at this point.

Risk: Uncertainty regarding strategic ownership of flooding mitigation and long term maintenance responsibilities

Following concerns raised by Members, this risk had had been redefined as:

"Uncertainty regarding strategic ownership of coastal, fluvial and surface flood mitigation and long term maintenance responsibilities."

This would enable officers to look at the whole range of flood issues. A study of the Causeway area had been commissioned. Whilst this risk had already been scored, Members were requested to review the definition of the risk.

Members debated this item and were of the opinion that the overall risk score was major and should not be reduced. It was believed that flooding was almost inevitable at some stage and, if so, it would be an event that would be remembered for years. Councillor A K M St. Joseph proposed that the risk be amended to read:

"Failure to have a clear shared plan regarding strategic ownership of coastal, fluvial and surface flood mitigation and long term maintenance responsibilities."

This was duly seconded and agreed.

Concern was raised that there was no mention of the Environment Agency and the Director of Customers and Community advised that the list of partners was not exhaustive and a more definitive list would be included.

The Director of Customers and Community agreed that it may be premature to reduce the score. Members then looked at the new scoring matrix and it was suggested that the risk score be set at 12. However, Members were concerned that reducing the risk score would give the wrong message. The Director of Customers and Community again reiterated that Members must consider the risks to this Council and was of the opinion that the risk should not be as high as Members suggested.

Councillor M S Heard proposed that the risk be redefined to read "failing to engage effectively with those partners in order that they can then demonstrate ...". It was agreed that it was necessary for this Council could show it has plans in place and has engaged with partners.

Councillor A K M St. Joseph proposed that that the risk score remain at 16 and this was duly seconded. The Director of Customers and Community would bring forward recommendations to mitigate the risk score.

There was concern about including the word "effectively" as this was outside of the control of the Council. The exact wording of the risk would be agreed outside of the meeting.

Further questions regarding the Corporate Risk Register were raised:

Risk 03 – Failure to target services and influence partners effectively to meet the health and wellbeing needs of the vulnerable population:

How long would the funding from Essex County Council (ECC) to enable employment of a Health Improvement Officer be for?

The Director of Customers and Community advised that there was a separate grant available from ECC for staffing. This position would be a fixed term contract funded directly by the County Council. It was considered important to have a member of staff able to interpret health data.

05 – Failure to have a clear shared vision regarding Strengthening Communities:

The comments column was not very clear and the inference at the end was concerning.

The Director of Customers and Community agreed that the final sentence regarding this risk could be removed. There had been a recent meeting where it was agreed that there would be a recommendation to Council to approve the strategy work.

RESOLVED that:

- (i) Members' comments on the information set out in the report and Appendix 1 thereto be noted;
- (ii) That the following corporate risks be removed from the corporate risk register given the risk scores had been reduced to within the Council's accepted tolerance:
 - Risk 6 Failure to have an adopted Local Development Plan (LDP)
 - Risk 12 Failure of the Council to influence regional partners, to support and encourage economic prosperity and inward investment to the Maldon District
 - Risk 19 Lack of access to legal resource;
- (iii) That a risk be added to the corporate risk register regarding lack of confidence in police partnerships with a view to delivery of public safety particularly in rural areas
- (iv) That the risk relating to flooding (Risk 08 Uncertainty regarding strategic ownership of coastal, fluvial and surface water flood mitigation and long term maintenance responsibilities) be redefined to include the risk arising from coastal and fluvial flooding;
- (v) That in undertaking this review Members were assured that corporate risk was being managed effectively.

674. EXTERNAL AUDIT - AUDIT LETTER 2016 / 17

The Committee considered the report of the Director of Resources regarding the External Auditor's Annual Audit Letter 2016/17 attached at Appendix 1 to the Report.

The External Audit Manager verbally outlined the contents of Appendix 1 to the report to the Committee and drew Members' attention to the Executive Summary showing the work undertaken, including that:

- The External Auditors had issued an unqualified audit report and an unqualified value for money report;
- A report on certification of the Council's Housing Benefit Claim would be brought to the next meeting of this Committee.

The External Audit Manager then drew attention to the "Focusing on your Future" section of Appendix 1 to the Report and highlighted the following:

- The earlier deadline for production and audit of the financial statements from 2017/18;
- Changes to accounting standards relating to financial instruments and leases.

An additional fee in relation to additional procedures regarding valuations and the objections to the financial statements received had been agreed with the Council.

RESOLVED that the External Audit Annual Audit Letter 2016/17 be received.

675. PROGRESS AGAINST 2017 / 18 INTERNAL AUDIT PLAN

The Committee received the report of the Director of Resources, the purpose of which was to report progress to date with regard to work completed and any deviances to, or slippage, on the Internal Audit Plan 2017/18.

The Senior Audit Manager advised that 2 audits had been completed since the last report to this Committee. The Senior Audit Manager then drew Members' attention to the section on Information Management and advised that Officers had been tasked with looking at the Council's preparedness for the introduction of the General Data Protection Regulation (GDPR) and how systems could be improved. An action plan had been produced that Officers were working through.

The Senior Audit Manager then drew Members' attention to Contracts Procurement Management and Purchasing which had highlighted the following areas for improvement:

- Purchasing
- Contracts Register
- Purchase Cards

In response to a question, the Senior Audit Manager confirmed that recommendations were monitored and would be reported back to Members.

The Director of Resources advised the following:

- The issues with Elections were in relation to the PCC election, but systems had been compliant since then;
- The Contracts Register would be reviewed;
- The Purchase Cards procedure was currently being updated and a report would be brought to the Finance and Corporate Services Committee just after Christmas.

RESOLVED that Members the progress against the 2017/18 Internal Audit Plan be noted.

There being no further items of business the Chairman closed the meeting at 4.15 pm

CLLR P G L ELLIOTT CHAIRMAN

- (a)
- (b)

Agenda Item 5



REPORT of DIRECTOR OF RESOURCES

to AUDIT COMMITTEE 26 MARCH 2018

QUARTERLY REVIEW OF CORPORATE RISK

1. PURPOSE OF REPORT

- 1.1 This Committee has a key role in providing independent assurance to the Council on the adequacy of the risk management framework. The Risk Management Policy requires this Committee to undertake a quarterly review of the Corporate Risk Register as assurance that the corporate risks are being managed effectively.
- 1.2 This report provides an update on the position as at the end of Quarter 3 (31 December 2017) on the corporate risks included within the Corporate Risk Register 2017 / 18.

2. RECOMMENDATIONS

- (i) That Members review the information as set out in this report at **APPENDIX**1 and their views and comments are sought;
- (ii) That the risk relating to "Lack of confidence in police partnerships with a view to delivery of public safety particularly in rural areas" is redefined as proposed;
- (iii) That in undertaking this review Members are assured that corporate risk is being managed effectively.

3. SUMMARY OF KEY ISSUES

- 3.1 **APPENDIX 1** to this report provides further information on the individual risks including comments by the "risk owners" outlining the rationale for the current scoring and, where applicable, any movement in the risk scores.
- 3.2 In its role of ensuring that the corporate risks are being managed effectively, the views of this Committee are sought on the current position, any movement in the risks scores and the comments provided by the risk owners.

- 3.3 Risk re: Lack of confidence in police partnerships with a view to delivery of public safety particularly in rural areas
- 3.3.1 At its meeting in December 2017, the Committee agreed that the risk relating to crime should be redefined as stated above.
- 3.3.2 The aim of the Corporate Risk Register is to identify and define those risks that may prevent Maldon District Council from achieving its goals and objectives as outlined in the Corporate Plan and to establish mitigating actions for which we as a Council have control and can progress.
- 3.3.3 One of the objectives under the Corporate Goal "Strengthening communities to be safe active and healthy" is for people to feel safe from crime and anti-social behaviour.
- 3.3.4 While the risk as defined above does relate to this objective, whether this clearly describes the actual risk to the Council is questionable and the actions which the Council could take to mitigate are unclear.
- 3.3.5 It is acknowledged that issues such as a lack of visible policing impacts public confidence in the police and the perception of crime, but action that the Council can take to impact the operation and core funding of the police service is minimal.
- 3.3.6 Where the Council may have an impact, however, is endeavouring to influence its Community Safety partners (which include Essex Police, Essex Fire and Rescue, the National Probation Service and Essex County Council) to address the key areas of public concern.
- 3.3.7 It is suggested, therefore, that the actual risk is if the Council fails to effectively lobby and influence its partners the consequences of which could include:
 - Lack of public confidence in the Council
 - Lack of public confidence in the police
 - Increased fear of crime
 - Loss of business in the District
 - Negative impact on the economy.
- 3.3.8 There are current controls already in place and embedded which go some way to mitigating this risk:
 - Maldon District Council (MDC) is taking the lead role in the Maldon Community Safety Partnership (CSP);
 - the Community Protection Team having a visible presence throughout the District and undertaking duties previously done by the police (e.g. issuing fixed penalty notices for certain offences and enforcing speed restrictions);
 - the Overview and Scrutiny Committee acting as the Crime and Disorder Committee which has responsibility for reviewing performance of the police.
- 3.3.9 Additional mitigating actions proposed are:
 - 1. Effective monitoring of delivery of the Community Safety Partnership Action Plan
 - 2. Identify funding sources/options to supplement policing capacity
 - 3. Work with Essex police to improve public engagement events *

4. Increase/maximise press releases on the CSP achievements *

(*To reassure businesses and residents that significant preventative work is being undertaken to improve confidence and reduce the fear of crime).

3.3.10 In light of the above, the Committee is requested to consider redefining the risk as:

"Failure to influence the Community Safety partners to address the key areas of public concern and the negative perception of crime".

3.3.11 The current scoring for this risk is:

Likelihood 3 (Likely); Impact 2 (Moderately Low) – Overall score = 6.

3.3.12 No change to the current score is proposed although as the Community Safety and Protection roles within the Council are discretionary and heavily reliant on funding, if the funding is withdrawn the risk scores would need to be reviewed.

4. IMPACT ON CORPORATE GOALS

4.1 The risks included on the Corporate Risk Register have been identified as those which could prevent MDC from achieving the corporate goals stated in the Corporate Plan (2015-19) as updated and approved by Council in April 2017. By identifying these, assessing the current controls in place and determining what further actions need to be taken to mitigate the risks as much as possible, the Council's desired outcomes should be achieved.

5. IMPLICATIONS

- (i) **Impact on Customers** None.
- (ii) <u>Impact on Equalities</u> None.
- (iii) <u>Impact on Risk</u> Management of risk is fundamental to the sound operation of the Council. Failure to manage risk could have a significant impact on the Council's ability to correctly define its policies and strategies or deliver against its objectives.

The implementation and operation of the risk management framework will minimise risks and thus mitigate any potential strategic, operational, reputational or regulatory consequences.

Failure to manage risk would also mean that the Council might face censure by its external auditors or the potential for legal proceedings in the event of breaches of the Health and Safety at Work Act or similar legislation.

(iv) <u>Impact on Resources (financial and human)</u> - All risk management activity is undertaken within existing and planned budgets.

(v) <u>Impact on the Environment</u> – None.

Background Papers: None.

Enquiries to: Emma Foy, Director of Resources (Tel: 01621 875762) or Julia Bawden, Performance and Risk Officer, (Tel: 01621 876223).

Page 15

Corporate Risk Register Quarterly Review

Impact (I)Likelihood (L)4 - High4 - Very Likely

3 – Moderately High 2 – Moderately Low 2 – Unlikely

1 – Low 1 – Very Unlikely An overall risk score is reached by multiplying the likelihood score by the impact score

poo	3								
ikelihood	1								
Lik		1	2	3	4				
	Impact								

Anything in the shaded area is considered to be "below the Council's tolerance line"

Risk	Original Risk Score	Quarter Four Q4 2016/17	Quarter One Q1 2017/18	Quarter Two Q2 2017/18	Quarter Three Q3 2017/18	Direction of Score (since last quarter)	Comments
01 - Failure to safeguard children and vulnerable adults Date risk added to Register: 2012/13	L - 2	L-1	L-1	L – 1	L-1		Safeguarding continues to be monitored at corporate level and through an internal Officer group. External partners (MOAT) also attend. The Council has simplified and improved internal safeguarding pages on the intranet and has ensured reporting officers are represented within the main departments within the Council.
Owner: Director, Customers and Community	I - 3 Risk Score = 6	I - 4 Risk Score = 4	I - 4 Risk Score = 4	I – 4 Risk Score = 4	I-4 Risk Score = 4		These officers are being trained to Designated Officer level to ensure consistency and understanding. The internal group is overseeing the forthcoming round of training for staff. A Member training package will also be delivered in 2018 coving issues such as Child Sexual Exploitation, Drugs (County Lines/London Lines) and to update Members on current risks.

							APPENDIX I
Risk	Original Risk Score	Quarter Four Q4 2016/17	Quarter One Q1 2017/18	Quarter Two Q2 2017/18	Quarter Three Q3 2017/18	Direction of Score (since last quarter)	Comments
02 – Failure to identify older and most vulnerable people Date risk added to Register: 2017/18 Owner: Director, Customers and Community	L - 3 I - 3 Risk Score = 9	New risk 17/18	L - 3 I - 3 Risk Score = 9	L-3 I-3 Risk Score = 9	L-2 I-3 Risk Score = 6		The following comments relate to both Risk 02 and 03: The data which had been used to identify areas of the District most at risk to enable Health and Well Being activities and resources to be targeted to those areas, has been reviewed to ensure that it remains up to date and relevant. A range of activities have been delivered including the following: • Warm Maldon Campaign to reach most vulnerable residents.
03 - Failure to target services and influence partners effectively to meet the health and wellbeing needs of the vulnerable population Date risk added to Register: Redefined 2016/17 Owner: Director, Customers and Community	L - 3 I - 3 Risk Score = 9	L-3 I-3 Risk Score = 9	L-3 I-3 Risk Score = 9	L-3 I-3 Risk Score = 9	L-2 I-3 Risk Score = 6		 Continued support of the Mid Essex Social Prescribing model. The public launch of the self-referral model is imminent and we will be further publicising and supporting this, including presentations to ward Members. Progression of Strengthening Communities project in Tolleshunts and Tollesbury, in partnership with Essex County Council (ECC), targeted at an area of the District which is shown to be most at risk from social isolation and loneliness. Maldon District Council (MDC) is helping communities to help themselves, by the community identifying what activities/ clubs/ support they want to put in place. The project is progressing well. Our Health and Wellbeing Partnership was relaunched in September and re-branded

							ALLENDIAL
Risk	Original Risk Score	Quarter Four Q4 2016/17	Quarter One Q1 2017/18	Quarter Two Q2 2017/18	Quarter Three Q3 2017/18	Direction of Score (since last quarter)	Comments
							"Livewell Maldon" partnership group, with a widened membership.
							A targeted project to support weight management/reduce obesity/ increase levels of activity in an area of the district of high need is being developed in partnership with the Community Voluntary Service (CVS)).
04 - Failure to target services and influence partners effectively to support the increasing ageing population (re housing needs)	L - 3 I - 4 Risk Score	L – 4 I - 4 Risk Score	L – 4 I - 4 Risk Score	L – 4 I – 4 Risk Score	L – 4 I – 4 Risk Score	<u> </u>	Districts have agreed with ECC proposals to explore the feasibility of developing at district or cross-district level, services that provide assistance with minor repairs and home-from-hospital, to be funded from Better Care Fund should there be a surplus or top-slicing after statutory duties to fund Disabled Facilities
Date risk added to Register: 2016/17	= 12	= 16	= 16	= 16	= 16		Grants have been accounted for. Working groups between districts are being set up to
Owner: Director, Customers and Community							progress.
05 – Failure to have a clear shared vision regarding Strengthening Communities	L - 4 I - 3 Risk Score	New risk 17/18	L – 4 I - 3 Risk Score	L-4 I-3 Risk Score	L – 2 I – 3 Risk Score		Members of the Strengthening Communities Task and Finish Working Group (TFWG) were given an opportunity to attend the Health and Well Being Board in January 2018. A final meeting of the TFWG is being held in March to conclude the work of the group, and to consider
Date risk added to Register: 2017/18		12	= 12	= 12	= 6		the report to Council to endorse the Strengthening Communities Vision. There will also be a recommendation that future
Owner: Director,							

							APPENDIA I
Risk	Original Risk Score	Quarter Four Q4 2016/17	Quarter One Q1 2017/18	Quarter Two Q2 2017/18	Quarter Three Q3 2017/18	Direction of Score (since last quarter)	Comments
Customers and Community							Strengthening Communities work and projects are aligned to our Health and Well Being priorities. This approach is similar to that being taken by ECC, who have aligned Public Health and Strengthening Communities resources and responsibilities.
							A Livewell Maldon Strategy and action plan will be developed during 2018.
06 – Failure to deliver the required infrastructure to support development arising from the Local Development Plan Date risk added to Register: 2014/15 Owner: Director, Planning and Regulatory Services	L - 3 I - 4 Risk Score = 12	L-3 I-4 Risk Score = 12	L - 3 I - 4 Risk Score = 12	L - 3 I - 4 Risk Score = 12	L-3 I-4 Risk Score = 12		Delays in North Heybridge agreement on the Flood Alleviation Scheme. However, the Council has secured £7.3 million of Housing Infrastructure funding towards flood alleviation projects in Heybridge. Discussions are ongoing with partners to take this project forward. South Maldon - the largest element of the South Maldon Garden Suburb received planning permission in December 2016. Since then the consortium behind the scheme has withdrawn leaving the scheme to be developed by at least two developers. This approach does not change the infrastructure requirements or timing. North of Wycke Hill - Section 106 agreement in negotiation will set timing of South Maldon relief Road. Work is progressing to finalise the S106 agreement.

							APPENDIX I
Risk	Original Risk Score	Quarter Four Q4 2016/17	Quarter One Q1 2017/18	Quarter Two Q2 2017/18	Quarter Three Q3 2017/18	Direction of Score (since last quarter)	Comments
07 – Failure to have a clear shared plan regarding strategic ownership of coastal,							As agreed by the Audit Committee at the December meeting, the risk has been redefined and the risk score agreed.
fluvial and surface flood mitigation and long term maintenance responsibilities	L - 3	L-3	L-3	L-3	L – 4		The mitigating action to reduce this risk is to co-ordinate work with partners to mitigate the risk of flooding in the District. As part of this action quarterly meetings will be arranged with the relevant partners to:
Date risk added to Register: 2015/16 Redefined 2017/18	I – 4 Risk Score = 12	I - 4 Risk Score = 12	I - 3 Risk Score = 9	I - 3 I - 3 Risk Score = 9	I – 4 Risk Score = 16		 Identify the current flooding issues Establish what actions are required Understand what partner plans are for longer term maintenance.
Owner: Director, Planning and Regulatory Services							For 2018/19 a Key Corporate Activity has been agreed re: "Influence and co-ordinate partners to prioritise and deliver flood relief projects for identified surface, fluvial and coastal flooding risk areas in the District" – quarterly updates will be provided to Members on the progress being made on the specific projects.
08 - Being designated as an under- performing authority due to major planning	L - 2 I - 3	L – 4 I - 4	L – 4 I - 4	L-4 I-4	L-3 I-4		MDC should be below the 10% threshold for the 2018 assessment. Analysis of the upcoming appeals indicates the risk of exceeding 10% is reducing.
applications and appeals performance Date risk added to	Risk Score = 6	Risk Score = 16	Risk Score = 16	Risk Score = 16	Risk Score = 12		However, a watching brief should be maintained as this could change rapidly and the impact of the reduction in the number of 'major' applications in the system may be an issue going forward.

Risk Register: 2015/16	Original Risk Score	Quarter Four Q4 2016/17	Quarter One Q1 2017/18	Quarter Two Q2 2017/18	Quarter Three Q3 2017/18	Direction of Score (since last quarter)	Comments
Owner: Director, Planning & Regulatory Services							
9 – Failure to maintain a 5 year supply of Housing Land	L - 2		L-2	L-2	L – 2		Given the sensitivity of the 5 year housing land supply to trajectory of delivery on major schemes, this risk will remain on the corporate risk register albeit it is currently within tolerance.
Date risk added to Register: 2017/18	I-4 Risk Score = 8	New risk 17/18	I - 2 Risk Score = 4	I – 2 Risk Score = 4	I – 2 Risk Score = 4		
Owner: Director, Planning & Regulatory Services							
10 - Failure to meet the affordable housing need	L - 3	L-3	L-3	L-3	L-4		The risk score has increased following a review of the numbers of affordable homes, suitability of tenure and identified need, alongside identified rising levels of need and problems with affordability. The extent of the challenge
Date risk added to Register: 2016/17	I – 4 Risk Score = 12	I - 4 Risk Score = 12	I - 4 Risk Score = 12	I – 4 Risk Score = 12	I – 4 Risk Score = 16		has been presented to senior managers and work is progressing on developing a corporate approach to meeting the need for affordable
Owner: Strategic Housing Manager					-		housing beyond planned development which once agreed will help to mitigate this risk.

Risk	Original Risk Score	Quarter Four Q4 2016/17	Quarter One Q1 2017/18	Quarter Two Q2 2017/18	Quarter Three Q3 2017/18	Direction of Score (since last quarter)	Comments
11 - Failure to have a co-ordinated approach to supporting new and existing businesses Date risk added to Register: 2017/18 Owner: Chief Executive	L - 3 I - 4 Risk Score = 12	New risk 17/18	L - 3 I - 4 Risk Score = 12	L-2 I-4 Risk Score = 8	L-2 I-4 Risk Score = 8		Via the Transformation Project 'Open for Business', the Economic Development team is working with the Strategic Policy Manager and the Planning team to discuss potential projects with local businesses wishing to grow. The aim is to identify any major issues that are likely to cause problems and encourage these businesses to apply for preplanning with projects that are more viable. Once potential problems are resolved through pre-planning, the final planning permission applications will be better prepared and have greater chance of gaining planning permission. The Planning Officers are now also referring issues identified in planning applications to the Economic Development team to help the businesses consider viable alternatives.
12 - Failure to protect personal or commercially sensitive data Date risk added to Register: 2009/10 Owner: Director, Resources	L - 2 I - 3 Risk Score = 6	L-3 I-2 Risk Score = 6	L-3 I-2 Risk Score = 6	L-3 I-2 Risk Score = 6	L-3 I-2 Risk Score = 6		We are currently working on General Data Protection Regulations implementation and updating IT security policies which should reduce the risk in future.

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Risk 13- Inefficient Committee structure Date risk added to Register: 2015/16	Original Risk Score L - 3 I - 3 Risk Score = 9	Quarter Four Q4 2016/17 L-3 I-3 Risk Score = 9	Quarter One Q1 2017/18 L-4 I-3 Risk Score = 12	Quarter Two Q2 2017/18 L-2 I-3 Risk Score = 6	Quarter Three Q3 2017/18 L-2 I-3 Risk Score = 6	Direction of Score (since last quarter)	Comments A Committee structure update report was provided to Council in November with a number of recommendations all of which were approved including: - Members calling in planning applications to South Eastern Area (SE) and North Western Area (NW) Planning Committees; - Council will fully implement Mod.Gov and achieve paperless meetings by May 2019;
Owner: Chief Executive							- A review of the scope of Directorships and Terms of Reference of programme Committees to align Corporate Leadership Team roles better with those of the programme Committees.
14 – Unable to recruit and retain staff in national skill shortage service areas to meet the demands of the service	L - 3 I - 3	L-3 I-4	L-3 I-3	L-3 I-3	L-2 I-3		The most recent recruitment campaign was successful in filling all vacant posts in Planning. While the skills shortage nationally remains, MDC has in place policies and procedures to do what it can to address vacant posts and retain staff.
Date risk added to Register:2015/16	Risk Score = 9	Risk Score = 12	Risk Score = 9	Risk Score = 9	Risk Score = 6		In light of the above, the risk score has been
Owner: Director, Resources							reduced.

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Risk	Original Risk Score	Quarter Four Q4 2016/17	Quarter One Q1 2017/18	Quarter Two Q2 2017/18	Quarter Three Q3 2017/18	Direction of Score (since last quarter)	Comments
15 – Failure to plan and deliver balanced budgets over the medium term							The Budget for 2018/19 has been balanced and was approved in February. In addition the budget for 2019/20, in the main, has been balanced.
Date risk added to Register:2008 / 09 Owner: Director, Resources	L - 2 I - 3 Risk Score = 6	L-2 I-3 Risk Score = 6	L-2 I-3 Risk Score = 6	$ \begin{array}{c} L-2 \\ I-3 \\ Risk Score \\ = 6 \end{array} $	$ \begin{array}{c c} L-3 \\ I-3 \\ Risk Score \\ = 9 \end{array} $	e	After 2020 there is significantly more uncertainty as it has now been confirmed that the authority will only be able to retain 75% of new business rates growth after a reset which means our scope to generate additional business rates has been somewhat limited.
16 – Corporate policies not managed and reviewed Date risk added to	L - 3	L - 3	L-2	L-3	L-3		The Corporate Policy/Strategy schedule has been further updated this quarter with the policy drafting/review tasks included. A new database record all corporate policies has
Register:2016/17 Owner: Director, Resources	I - 3 Risk Score = 9	I - 3 Risk Score = 9	I - 3 Risk Score = 6	I – 2 Risk Score = 6	I – 2 Risk Score = 6		been developed. This will be populated in Quarter Four alongside ongoing monitoring of existing policies and strategies.

APPENDIX 1

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Risk	Original Risk Score	Quarter Four Q4 2016/17	Quarter One Q1 2017/18	Quarter Two Q2 2017/18	Quarter Three Q3 2017/18	Direction of Score (since last quarter)	Comments
17 – Lack of confidence in police partnerships with a view to delivery of public safety particularly in rural areas Date risk added to Register: 2017/18 Owner: Director, Customers and Community	L - 3 I - 2 Risk Score = 6	New indicator 17/18	New indicator 17/18	New indicator 17/18	L-3 I-2 Risk Score = 6		As agreed by the Audit Committee at the December meeting, but please see covering report and proposal to redefine / clarify the risk.

Agenda Item 6



REPORT of DIRECTOR OF RESOURCES

to AUDIT COMMITTEE 26 MARCH 2018

REVIEW OF RISK MANAGEMENT POLICY

1. PURPOSE OF THE REPORT

1.1 The purpose of this report is to seek the approval of the Committee to the revised Risk Management Policy which is attached as **APPENDIX 1** to this report.

2. RECOMMENDATION

To the Council:

That the Risk Management Policy (APPENDIX 1) be adopted.

3. SUMMARY OF KEY ISSUES

- 3.1 The Council's Risk Management Policy has previously been reviewed every two years to ensure that it is up to date and fit for purpose. It defines the roles and responsibilities for Members and individuals within the Council in respect of Risk Management.
- 3.2 A thorough review of the policy was undertaken in 2017 and following agreement from the Corporate Leadership Team (CLT) was submitted to the Audit Committee in August 2017. However, at that time Members sought clarification on the Committee's role in risk management and agreeing the risk register. As a result, the Committee deferred approving the policy.
- 3.3 A risk management workshop was held in December 2017 to assist Members' understanding of risk management and the Council's risk management framework. The opportunity was also taken to review and discuss the proposed changes to the policy ahead of it being submitted again to the Committee.
- 3.4 Following this useful discussion and feedback from Members, further changes have been made to the policy.
- 3.5 The policy has been amended/updated in the following areas:
 - A stronger statement provided of the Council's Risk Management objectives and how these will be met.

- Clarification of the Risk Matrix and Scoring in discussions with managers
 and Members it is apparent that the rationale behind the risk scores is not
 always understood or considered when applying or agreeing scores for both
 corporate and service risks. It is proposed that the terminology and the risk
 scoring are clarified with further guidance provided to ensure that all the
 appropriate issues are considered and applied consistently when risks are
 scored. The Risk Matrix and the Council's tolerance levels are unchanged.
- Clarification on how risks should be escalated if the Audit Committee agrees that a risk should be added to the register, it should make a recommendation to CLT. If, however, CLT does not agree, the Committee should refer to Council for Council to make the final decision.
- Previously, the risk policy stated that every three years Members would be invited to participate in the annual review of the risk register undertaken by CLT and managers. Given Members, through the Audit Committee, are involved in reviewing the risk register every quarter and regularly have the opportunity to consider any new risks, Members suggested that this additional involvement every three years was unnecessary. The requirement has therefore been removed.
- Roles and responsibilities at all levels are clearly explained.
- Clearer definitions are provided of risk and the areas within the Council where risk management needs to be applied.
- Clarification given that following the annual review of the risk register undertaken by CLT and managers, this is submitted to the Audit Committee for consideration and discussion (previously it stated "for noting").
- Updated to reflect the outsourcing of the internal audit function.
- Review frequency increased to every three years.

4. IMPACT ON CORPORATE GOALS

4.1 Effective risk management arrangements ensure that the Council is able to meet its stated goals by effective control of the risks identified to the delivery of those goals.

5. IMPLICATIONS

- (i) <u>Impact on Customers</u> There is an indirect positive impact, in that effective risk management helps ensure that service delivery to customers is maintained.
- (ii) **Impact on Equalities** None.
- (iii) <u>Impact on Risk</u> Management of risk is fundamental to the sound operation of the Council. Failure to manage risk could have a significant impact on the Council's ability to correctly define its policies and strategies or deliver against its objectives.

The implementation and operation of the risk management framework will minimise risks and thus mitigate any potential strategic, operational, reputational or regulatory consequences.

Failure to manage risk would also mean that the Council might face censure by its external auditors or the potential for legal proceedings in the event of breaches of the Health and Safety at Work Act or similar legislation.

- (iv) <u>Impact on Resources (financial)</u> No direct impact, although risk management practices not only help control financial risks but also keep the cost of insurance down.
- (v) <u>Impact on Resources (human)</u> Once approved risk management will be included within the Council's induction process and e-learning portfolio of courses.
- (vi) **Impact on the Environment** None.

Background Papers: None.

Enquiries to: Emma Foy, Director of Resources, (Tel: 01621 875762) or Julia Bawden, Performance and Risk Officer, (Tel: 01621 876223).



Maldon District Council

Risk Management Policy



Document Control Sheet

Document title	Risk Management Policy		
Summary of purpose	Sets out the risk management arrangements of the Council		
Prepared by	Julia Bawden - Performance and Risk Officer		
Status	Draft		
Version number	Version 3 2017/18		
Approved by	Audit Committee, Council		
Approval date	Audit Committee – 26 March 2018, Council - 17 May 2018		
Date of implementation	Continuous (takes over from existing policy)		
Review frequency	Every three years		
Next review date	August 2020		
Circulation	Intranet		
Published on the	No		
Council's website			

Validity Statement

This document is due for review by the date shown above, after which it may become invalid. Users of the strategy or policy should ensure that they are consulting the currently valid version of the document.



Contents

Policy Statement	4
Risk Management Approach	
1. Introduction	6
2. Definitions	6
3. Approach	7
4. Roles and Responsibilities	11
5. Embedding Risk Management	13
6. Training and Awareness	13
7. Review of the Risk Register	14
8. Partnership Risks	14
9. Relevance to other Corporate Functions	14
Appendices	
Appendix 1 – Risk Assessment Table	15

Risk Management Policy Statement

Context

Maldon District Council provides a diverse range of services to the residents, business and visitors of the Maldon District. It works with other public, private and voluntary bodies to achieve its vision of making the District a better place for people to live, work and enjoy.

The next few years will present challenges for the Council, particularly funding, which will mean that we may need to develop a different model of how we deliver our services and look at alternative ways of empowering our communities. Whilst these changes create opportunities; they also create risks and uncertainty.

The Council has to manage the risks and opportunities associated with the delivery of our objectives stated in the Corporate Plan, by adopting good risk management principles.

Risk is unavoidable. It is an important part of life that allows us all to move forward and develop. Successful risk management is about ensuring that we have the correct level of control in place to provide sufficient protection from harm, without stifling our development. The Council's overriding attitude to risk is to operate in a culture of creativity and innovation, in which all key risks are identified in all areas of the business, are understood and proactively managed, rather than avoided.

Risk management therefore needs to be embedded into the Council and our key partners. We need to have the structures and processes in place to ensure the risks and opportunities of daily Council activities are identified, assessed and addressed in a standard way and proactively managed. This will allow us not only to meet the needs of the community today, but also be prepared to meet future challenges.

The purpose of this policy is to define risk management, state the Council's risk management objectives, approach, responsibilities and procedures.

What are the Council's risk management objectives?

- Adopt a strategic approach to risk management to make better informed decisions which is vital to successful transformational change;
- Acknowledge that even with good risk management and our best endeavours, things can go wrong. Where this happens we use the lessons learnt to try to prevent it from happening again;
- Develop leadership capacity and skills in identifying, understanding and managing the risks facing the Council;
- Promote corporate governance and integrate risk management into how we run Council business/services. Sound risk management processes help us to achieve our corporate vision, priorities and objectives as outlined in the Corporate Plan;

- Support a culture of well-measured risk taking throughout the Council's business, including strategic, programme, partnership, project and operational. This includes setting risk ownership and accountabilities and responding to risk in a balanced way, considering the level of risk, impact and cost of control measures;
- Anticipate and respond to changing social, environmental and legislative requirements and ensure that the Council continues to meet all statutory and best practice requirements in relation to risk management;
- Ensure risk management continues to be a key and effective element of our Corporate Governance arrangements.

How will our objectives be met?

- Commitment from the Corporate Leadership Team (CLT) and senior managers to managing risk effectively;
- Maintain a robust and consistent risk management approach that will:
 - identify and effectively manage strategic, operational and project risks
 - focus on those key risks that, because of their likelihood and impact, make them priorities;
- Ensure accountabilities, roles and responsibilities for managing risks are clearly defined and communicated;
- Consider risk as an integral part of business planning, service delivery, key decision making processes, and project and partnership governance;
- Communicate risk information effectively through a clear reporting framework; and
- Increase understanding and expertise in risk management through targeted training and the sharing of good practice

The Risk Management Policy and framework will be reviewed every three years to take account of changing legislation, government initiatives, best practice and experience gained within the Council.

Risk Management Approach

1. Introduction

The purpose of the risk management approach outlined in this document is to:

- Provide standard definitions and language to underpin the risk management process
- Ensure risks are identified and assessed consistently throughout the organisation through the clarification of key concepts
- Clarify roles and responsibilities for managing risk
- Implement an approach that meets current legislative requirements and follows best practice and relevant standards.

2. Definitions

Risk can be defined as "an uncertain event that, should it occur, will have an effect on the Council's objectives and/or reputation." It is the combination of the probability of an event (likelihood) and its effect (impact).

Risk management generated opportunities can arise as a consequence of effectively managing risks, for example additional grant funding or improved working practices.

Risk management is the "systematic application of principles, approach and processes to the identification, assessment and monitoring of risks." By managing our risk process effectively we will be in a better position to safeguard against potential threats and exploit potential opportunities to improve services and provide better value for money.

Risk management is applied at all levels of service delivery and include:

- Corporate Strategic Risks Risks that could have an effect on the successful achievement of our long term corporate goals, priorities and objectives. These are:
 - risks that could potentially have a council-wide impact and/or
 - risks that cannot be managed solely at a service level because higher level support/intervention is needed.
- <u>Service Risks</u> Risks at a service level that could have an effect on the successful
 achievement of the Directorate or service outcomes/objectives. Potentially these risks could
 have a significant financial, reputational and/or service delivery impact on the service as a
 whole.
- Contract Risks Risks that could have an effect on the successful achievement of the contract's outcomes/objectives in terms of delivery, outcomes and value for money. Contract risks are managed throughout the contracting process including contract management/business as usual.
- <u>Project Risks</u> Risks that could have an effect on the successful achievement of the project's outcomes/objectives in terms of service delivery, benefits realisation and engagement with key stakeholders (service users, third parties, partners etc.).
- Partnership Risks Partnerships bring risks as well as opportunities; how the partnerships are governed can be problematic and as a result the objectives of the partnership may not be achieved; they may not deliver good value for public money or the Council could find itself having to pay more money into a partnership or pick up other partners' contributions should one or more partners leave. Alternatively, the Council could just find that it is not reaping the benefits that it thought it would by participating in the partnership.

3. Approach

For a number of years the Council has been working towards a comprehensive and integrated approach to risk management where:

- ✓ staff are clear about what risk management is intended to achieve;
- ✓ significant risks are being identified and managed effectively:
- √ training and guidance on risk management are easily accessible;
- ✓ a consistent corporate approach is followed using a common 'risk language'; and
- ✓ it is seen as an integral part of good corporate governance.

This section details the agreed MDC Risk Management framework to ensure the effective management of risk across the organisation. The Council's approach to risk management involves a number of key steps as outlined below.



Effective communication is key to the successful management of risk and it is vital that staff at all levels across the organisation are involved if risk management is to be truly embedded and a useful management tool.

1) Identify Corporate, Service, Project or Partnership Objectives

Before we can identify our risks we need to establish the context by looking at what we are trying to achieve and what our proposed objectives are. Depending on the area under review, the relevant objectives and outcomes will usually be detailed in existing documents, including the following:

- Maldon District Council Corporate Plan
- Business Plans
- Project Brief or Project Initiation Document
- Partnership agreement or Service Level Agreement.

2) Identify Risks

At its simplest, risk management consists of asking and answering "what are we trying to achieve?" and "what can stop this/these being achieved?".

There are a number of different types of risk than an organisation may face including:

<u>Strategic</u> - what could prevent corporate goals and objectives being achieved? An example would be a failure to ensure that all services are working effectively to the corporate agenda or not having the capacity and resources to deliver the agreed key activities.

<u>Financial</u> - what could affect the council's financial position? Examples include the risks associated with investment and borrowing, lack of sound financial management or the existence of fraud or corruption.

<u>Economic</u> - the impact of an economic downturn would affect prosperity of local businesses and communities.

<u>Regulatory</u> - what would happen if the Council was not compliant with legislation such as the Health and Safety at Work Act, Data Protection, Freedom on Information Employment Law, Human Rights, Equalities Act or Environmental legislation? What about legal challenges?

<u>Reputation</u> - Negative publicity (local and national) or an increase in complaints would affect the Council's reputation.

<u>Management</u> – there could be risks relating to loss of key staff, recruitment or retention issues; capacity issues – availability, sickness absence, emergency preparedness or business continuity.

<u>Operational/Departmental</u> - what could potentially affect the delivery of the service? Examples could be a loss of key staff, or a failure of IT systems.

<u>Health and Safety</u> - what are the potential risks to staff, customers, and users of the service? Examples of this are risk of slips, trips and falls.

<u>Partnerships</u> - what would the implications for the Council be if the partnership failed? For example, would the Council be responsible for any of the partnership's financial liabilities or would services be affected if the partnership was no longer in existence?

<u>Projects</u> - What could cause the project to fail? Examples could include unrealistic initial assumptions about time, cost or feasibility.

Describing the risk is equally important to ensure that risks are fully understood, and to assist with the identification of mitigating actions, the cause and consequences of each risk must also be detailed. Typical phrases used to do this include:

Description	Cause	Consequences
Failure to	due to	leads to
Failure of	because	results in
Lack of		
Loss of		
Uncertainty of		
Delay in		
Inability to		
Inadequate		
Partnership with		
Development of		
Damage to		
evelopment of		

Once identified, all risks are recorded in a "Risk Register" – this maybe the Council's corporate risk register, the service risk register, the project risk register or a partnership risk register.

A risk owner must be allocated and recorded against each risk on the risk register. Such accountability helps to ensure 'ownership' of the risk is documented and recognised. A risk owner is defined as a person with the accountability and authority to effectively manage the risk. At this stage there may well be a long list of possible risks. The next step will help to prioritise these in order of importance.

3) Assess adequacy of existing controls

For each risk, identify those actions/controls which are currently helping to minimise the likelihood and/or impact of the risk occurring. These are actions or controls that are completed, in place and embedded.

Assess the adequacy of these controls as follows:

Poor - no controls in place or the few that are do not mitigate the risk **Fair** - some controls in place and some reduction in risk but still not adequate **Good** - controls in place are considered adequate and reduce the risk **Excellent** - effective controls are in place which reduce the risk considerably.

4) Assess Inherent Risk Level

To ensure resources are focused on the most significant risks, the Council's approach to risk management is to assess the risks identified in terms of both the potential likelihood and impact so that actions can be prioritised.

Taking into account the controls currently in place and how adequately these reduce the likelihood or impact of the risk, the risk is scored for both likelihood and impact using **The Risk Assessment Table** included in **Appendix 1**.

Both the likelihood and impact levels of each risk are plotted on the Maldon District Council's Risk Matrix which displays its appetite or tolerance to risk (see below). The position of the risk, either above or below the tolerance line, will help to determine what action, if any, will be taken forward.

Anything in the green area is considered to be "below the tolerance line" and it may be decided not to take any mitigating action.

Likelihood	4 Almost Certain	4	8	12	16	
	3 Likely	3	6	9	12	
	2 Unlikely	2	4	6	8	
	1 Almost uncertain	1	2	3	4	
		1	2	3	4	
		Minor	Moderate	Serious	Major	
	Impact					

An overall risk score is reached by multiplying the likelihood score by the impact score.

5) Identify further mitigating actions required

There are four basic ways of responding to risks identified and can be summarised as the four 'T's':

- ❖ Terminate deciding not to continue or proceed with the activity in view of the level of risks involved although often this is not possible.
- ❖ Transfer which involves another party bearing or sharing the risk such as obtaining insurance or finding an external partner to undertake the activity in return for a fee (which will reflect the risk taken on). Not all types of risks can be transferred.
- ❖ Treat by ensuring existing controls are effective by periodic review and testing and implementing additional controls through mitigating actions where considered necessary to reduce the risk to a tolerable level
- Tolerate it is not considered cost effective to address the risk, so the risk is accepted.

The decision on the appropriate action should take account of the Council's risk appetite, i.e. what level of risk is the Council prepared to tolerate. Any risk that has been assessed as above the tolerance line must be a priority for immediate management action with actions designed to reduce the risk to a target level set within the risk appetite.

Mitigating actions identified should be clearly defined, with a lead officer and timescales for implementation/completion.

6) Monitor impact of mitigating actions on residual risk

The risk owner should monitor the progress of the mitigating actions regularly to ensure that these are being taken forward and that they are actually reducing either the impact or the likelihood of that risk occurring. The overall risk score should be re-assessed accordingly and if it is now within the accepted tolerance, the risk can be removed from the appropriate risk register.

7) Review and report

Risk management should be considered as an ongoing process and as such risk needs to be reviewed regularly to ensure that prompt and appropriate action is taken to reduce their likelihood and/or impact.

The Council's Risk Management Framework requires the following review/reporting:

<u>Corporate Risks</u> - those risks that are identified as potentially preventing the Council achieving the corporate goals and objectives stated in the Corporate Plan and which are assessed as being above the Council's acceptable tolerance level are recorded on the Corporate Risk Register and TEN (the Council's Performance and Risk Management System). The mitigating actions are also recorded and both the overall risk scores and the progress of the mitigating actions are updated on a quarterly basis by the risk owner or the officer responsible for taking the actions forward.

To ensure that risk is being managed effectively, quarterly risk reports are submitted to CLT and Audit Committee outlining the current risk scores, whether there have been any changes to the scores and what progress has been made on the mitigating actions.

<u>Service/operational risks</u> - at a service/operational level, the risks that are identified as potentially preventing the service from achieving its service objectives and which are assessed as being above the Council's acceptable tolerance level are detailed in the business plans and also recorded on TEN.

These should be subject to regular review and discussion between the manager and their Director. It is the responsibility of the appropriate managers to ensure that any actions detailed in the business plan to reduce these service risks are taken forward and progress monitored.

<u>Project risks</u> - these risks should be reviewed regularly by the Project Manager and the Project Sponsor.

<u>Partnership risks</u> – for any partnership which is assessed as being high risk, a risk register will be established and will be subject to annual review as part of the Partnerships assessment framework. The risks will be included in the relevant service's business plan together with the mitigating actions and these will be subject to regular review by the manager and their Directorate.

4. Roles and Responsibilities

To be effective risk management must be embedded throughout the Council by CLT, Members and each individual employee. One of the Council's key objectives within this policy is to promote a risk aware culture. Risk management is a cultural issue which will only be effective with understanding and support from all levels of staff and Members; training will be provided periodically to staff and Members to enable them to fulfil their risk management responsibilities.

All employees and Members are responsible for ensuring there are robust and fit-for-purpose systems of internal control and risk management in place; and they are aware of the risks:

- they are empowered to take
- · that must be avoided
- that must be reported upwards.

Some individuals and groups have specific leadership roles or responsibilities as follows:

Full Council

Give final approval to the Risk Management Policy, based on a recommendation from the Audit Committee

Give final approval to the Council's Corporate Risk Register if CLT and Audit Committee are unable to reach agreement

Finance & Corporate Services Committee

Audit Committee Receive reports from the Council's Health and Safety Advisor on at least a six monthly basis

Provide independent assurance on the Council's risk management framework and governance processes. The main focus will be on strategic risks with an overview of the process for service/operational risk management and escalation

Ensure that the Council manages risk effectively through the development and delivery of a comprehensive Risk Management Policy

Consider/recommend approval of the Risk Management Policy which is reviewed every three years

Monitor corporate risk management by receiving quarterly reports

Consider/note any changes proposed by CLT following its annual review of the Corporate Risk Register

Make recommendations to CLT regarding risks included on the Corporate Risk Register

Refer to Council if CLT and Audit Committee are unable to reach agreement on risks included on the Corporate Risk Register

To attend periodic risk management awareness briefings

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Page 39

Undertake a quarterly review of the corporate risk register and mitigating actions

Review the Corporate Risk Register annually, to raise corporate awareness of any emerging risks and ensure that appropriate mitigating actions are taken forward and monitored

Corporate Leadership Team

Consider strategic risks affecting the Council and recommend action to Members as appropriate

Embed risk management within the Directorates and ensure that all staff are aware of their risk management responsibilities and reporting lines

Consider the risks identified in reports brought to CLT

Receive reports from the Council's Health and Safety Adviser, the Health and Safety Committee and/or the services where health and safety issues cannot be resolved at a local level

Risk Owners

Ensure that appropriate resources and importance are allocated to the process

Confirm existence/effectiveness of current controls and ensuring further mitigating actions are implemented

Provide assurance that the risks they own are effectively managed

Manage risk effectively in their particular service areas

Ensure all staff are aware of any specific risk management responsibilities through the performance review process

Embed the risk management process by identifying new service risks, agreeing and implementing mitigating actions and updating records on TEN

Report any new risk or escalate any service risk which is deemed to have more corporate impact to their Director and CLT

Managers

Schedule frequent discussion on risk management issues through team meetings as required

Be accountable (to the Director, CLT and Audit Committee) for their actions with regard to managing risk

Undertake annual health and safety risk assessments and take any corrective action that is needed

Health and Safety Risks are dealt with immediately - where possible the risk should be removed or eliminated, otherwise it must be reported as a matter of urgency and steps taken to warn people of the problem

Manage risk effectively in carrying out their everyday duties

Report hazards and risks to their Managers

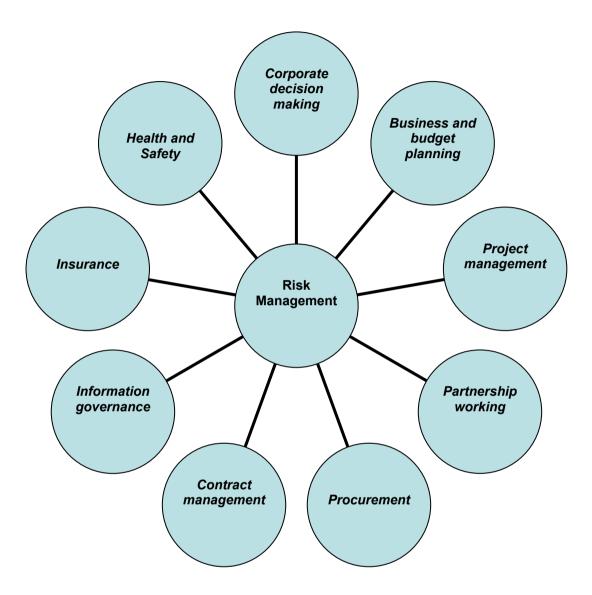
Undertake their duties within risk management guidelines

Health and Safety Risks are dealt with immediately - where possible the risk should be removed of Sminated, otherwise it must be reported as a matter of

All Staff

5. Embedding Risk Management

For risk management to be effective and a meaningful management tool, it needs to be an integral part of key management processes and day-to-day working. As such risks and the monitoring of associated actions should be considered as part of a number of the Council's significant business processes.



6. Training and Awareness

Having developed a robust approach and established clear roles and responsibilities and reporting lines, it is important to provide Members and Staff with the knowledge and skills necessary to enable them to manage risk effectively.

The Council uses a range of training methods to meet the needs of the organisation including external training (e.g. from our contracted internal audit providers) and intranet based e-awareness training.

Further risk management information is available on the intranet

7. Review of the Corporate Risk Register

In addition to possible items for the register arising from items referred to CLT for consideration, there will be an annual review by CLT and managers to consider:

- whether any items should be deleted from the risk register; or
- should be added to the risk register; or
- have moved above or below the Council's risk tolerance level and so require a change in status in respect of action planning;
- whether the Council's risk appetite/tolerance level remains appropriate.

Following the reviews the amended Corporate Risk Register is submitted to the Audit Committee for consideration and discussion.

8. Partnership Risks

These should be identified by the officer with lead responsibility for the partnership or at the time of its initiation.

For those partnerships which are designated as key/significant to the Council, an annual assessment will be undertaken. The risk register should also be reviewed at least annually to ensure that it is kept up to date, consideration given to both the risks to the partnership and risks to the Council arising from the partnership and mitigating actions established where appropriate.

9. Relevance to other Corporate Functions Internal Audit

The Council's appointed internal auditors will periodically undertake an independent evaluation of the risk management framework to provide the Audit Committee with assurance on the adequacy of the internal control arrangements including risk management and governance.

Business Continuity Planning

The main objective of business continuity is to provide a means of both recovery for the Council should it be affected by a crisis or a business interruption and of minimising the impact on the Council's employees, customers and reputation. Examples of issues tackled by business continuity include those in relation to loss of premises, equipment, staffing, and telecommunications / IT. Business continuity planning requires that potential impact to be considered and managed and the corporate and individual business continuity plans need to be updated on an on-going basis to reflect changes in the overall risk profile. Put simply, the difference between risk management and business continuity is that the former considers what could go wrong and seeks, where possible, to prevent it, while the latter creates contingency arrangements in the event of a crisis and is largely indifferent to the cause of the problem.

Performance Management and Monitoring

Performance management is concerned with the delivery of corporate objectives, business plans and budgets. Risks can prevent this and as a result corporate, service, project and partnership risks registers are maintained and cross referenced to objectives and plans in order to ensure:

- The risks to strategic and operational plans are being actively and appropriately managed; and
- Due account has been taken of material risk considerations in the preparation of delivery plans.

APPENDIX 1

Risk Assessment Table

Risk Assessment

The identified risks are assessed in terms of their likelihood of occurring and the potential impact should they occur and are scored on a scale of 1 - 4 as follows:

Likelihood	Clarification of Definition		
4 - Almost Certain	Regular occurrence. Circumstances frequently encountered.		
3 - Likely	Circumstances occasionally encountered		
2 - Unlikely	Circumstances infrequently encountered		
1 – Almost Impossible	Has rarely/never happened		

As guidance, when assessing the impact, the following aspects should be taken into consideration:

Impact of event occurring					
	Minor	Moderate	Serious	Major	
Risk Score	1	2	3	4	
Financial	£0k - £10k	£10k - £100k	£100k - £500k	>£500k	
Service Provision	Minor service delay/disruption	Short term service delay/disruption	Medium term delay/Service suspended	Total service suspended for a significant period/statutory duties not delivered	
Project	Minor delay	A few milestones missed	A major milestone missed	Project does not achieve objectives and misses majority of milestones	
Health & Safety	Minor injury	Broken bones/illness	Life changing injury/Major illness	Major loss of life/large scale major illness	
Objectives	Minor impact on objectives	Failure to achieve service plan objectives	Failure to achieve Directorate objectives	Corporate objectives not met	
Morale	Mild impact on morale	Some staff dissatisfaction, increase in staff turnover	Major staff dissatisfaction, short term industrial action, staff turnover including key personnel	Major staff dissatisfaction, long term industrial action, significant key staff turnover	
Reputation	No media attention/isolated complaints	Adverse local media coverage	Adverse national media coverage	Remembered for years	
Government relations	Minor local service issues	Poor assessment(s)	Service taken over temporarily	Ministerial intervention in running service	

An overall risk score is reached by multiplying the likelihood score by the impact score.



Agenda Item 7



REPORT of DIRECTOR OF RESOURCES

to AUDIT COMMITTEE 26 MARCH 2018

APPOINTMENT OF EXTERNAL AUDITORS

1. PURPOSE OF THE REPORT

1.1 This report is to advise Members of the appointment of Deloitte LLP as External Auditors to Maldon District Council for a period of five years from 1 April 2018.

2. RECOMMENDATION

That the appointment of Deloitte LLP as the External Auditors to the Council be reviewed and commented on.

3. SUMMARY OF KEY ISSUES

- 3.1 At the meeting of 8 December 2016, the Audit Committee recommended to opt in to the Public Sector Audit Appointments (PSAA) national arrangement for the appointment of external auditors. Minute 1162 of the Council meeting of 5 April 2017 resolved to enter into this arrangement.
- 3.2 Following a consultation period that commenced in September 2017, notification was received from the PSAA on the 18 December 2017 of the appointment of Deloitte LLP as the Council's External Auditors on the Financial Statements for the period 2018/19 2022/23.
- 3.3 This appointment does not include the audit of the Housing Benefit Subsidy Grant Claim which is being awarded separately.

4. CONCLUSIONS

4.1 This report informs Audit Committee Members on the appointment of the External Auditors.

5. IMPACT ON CORPORATE GOALS

5.1 The report links to the Maldon District Council goal of 'Delivering good quality, cost effective and valued services'.

6. **IMPLICATIONS**

- (i) <u>Impact on Customers</u> None.
- (ii) <u>Impact on Equalities</u> None.
- (iii) <u>Impact on Risk</u> None.
- (iv) <u>Impact on Resources (financial)</u> The PSAA is a regulated arrangement ensuring regulated costs for the provision of the audit service.
- (v) <u>Impact on Resources (human)</u> –None.
- (vi) <u>Impact on the Environment</u> None.

Background papers: None.

Enquiries to: Emma Foy, Director of Resources, (Tel: 01621 875762)

Agenda Item 8



REPORT of DIRECTOR OF RESOURCES

AUDIT COMMITTEE 26 MARCH 2018

ACCOUNTING POLICIES

1. PURPOSE OF THE REPORT

1.1 This report is to advise Members of changes to accounting policies used in the preparation of the annual financial statements.

2. RECOMMENDATION

To endorse the Accounting Policies to be used in the compilation of the 2017/18 financial statements **APPENDIX 1**.

3. SUMMARY OF KEY ISSUES

- 3.1 Accounting policies are defined in The Code of Practice on Local Authority Accounting (The Code), as the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements. For local authorities, these policies are developed in accordance with The Code, with flexibility provided to ensure that policies reflect the material items of expenditure within the financial statements.
- 3.2 The Council is required to disclose a summary of significant accounting policies in the financial statements. However, unless there are major changes to accounting rules and regulation or there is a significant change in the financial activities of the Council, accounting policies do not change radically between years. The Council's accounting policies are determined by the Director of Resources and it is considered to be best practice for the Audit Committee to be kept informed of any key changes.
- 3.3 There are no changes to the Code that will influence the Council's accounting policies for 2017 / 18. However, there have been two amendments to the wording in the policies to reflect changes in the Authority's practices. These are detailed in paragraphs 3.4 and 3.5 of the report below. The extract from the financial statements showing the accounting policies for 2017/18 can be found in **APPENDIX 1**.
- 3.4 The Authority has changed the way in which its Fixed Assets are valued. Previously, all assets were valued as a whole once every five years. Now a fifth of the assets are valued each year with material assets being valued annually. This still ensures that all assets are valued as required within a five year period.

3.5 With the advanced deadline for the completion of the financial statements, from 30 June to 31 May, opportunities have been considered to enable the shorter timetable for preparation and approval of the financial statements. One area is the accrual for outstanding leave. This ensures that a charge is made to the current financial year for any leave accrued that has not been taken as at 31 March. Previously it has been compiled from the data in individual timesheets of all staff. However, the figure itself is not material and, therefore, is now based on an estimation using historical data. The accounting policy wording for Benefits Payable During Employment has been amended to reflect this.

4. **CONCLUSION**

4.1 It is good practice for the Audit Committee to endorse the accounting policies prior to its approval of the Statement of Accounts.

5. IMPACT ON CORPORATE GOALS

5.1 The report links to the Maldon District Council goal of 'Delivering good quality, cost effective and valued services'.

6. IMPLICATIONS

- (i) <u>Impact on Customers</u> None.
- (ii) **Impact on Equalities** None.
- (iii) <u>Impact on Risk</u> None.
- (iv) **Impact on Resources (financial)** None.
- (v) <u>Impact on Resources (human)</u> –None.
- (vi) <u>Impact on the Environment</u> None.

Background papers: None.

Enquiries to: Emma Foy, Director of Resources, (Tel: 01621 875762)

NOTES TO THE CORE ACCOUNTING STATEMENTS (Extract from the financial statements)

1. ACCOUNTING POLICIES

General Principles and Accounting Concepts.

The Statement of Accounts summarises the Council's transactions for the financial year and its position at the year end of 31 March. The Council is required to prepare an annual Statement of Accounts, prepared in accordance with proper accounting practices. These practices primarily comprise of the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The main accounting policies adopted by the Council in preparing the Statement of Accounts are as follows:

1) Accruals of Income and Expenditure

Activity is generally accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Fees , charges and rents are accounted for as income for the period that the Council provides goods or services, except in the case of building control, planning fees and licence fees which are accounted for on a cash basis.
- Supplies are recorded as expenditure when they are consumed, when there is a gap between the date supplies are received and their consumption they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instruments rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet.
 Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- In the case of periodic receipts and payments, where it does not materially affect the accounts and a full year's income and expenditure is recorded, an accrual does not need to be raised

2) Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments held for the purpose of settling liabilities in the short-term and that are readily convertible to known amounts of cash with insignificant risk of change in value.

3) Exceptional items

When specific items of income and expenditure are individually material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement (CIES) or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

4) Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible assets attributable to the relevant service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. Depreciation, revaluation and impairment losses and amortisation are replaced by an equal contribution in the General Fund balance, by way of an adjusting transaction with the Capital Adjustment Account, recorded in the Movement in Reserves Statement (MiRS).

5) Government Grants and Other Contributions

Whether paid on account by instalments or in arrears, government grants, third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line or Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement. Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account.

6) Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave, paid sick leave and non-monetary benefits for current employees. They are recognised as an expense for services in the year in which employees render their services to the Council.

An accrual is made for the cost of holiday entitlements, flexi time and time off in lieu earned by employees but not taken before the year-end, which employees can carry forward into the next financial year. The accrual is an estimation based on the historical cost of outstanding leave after giving consideration to the risk of any material misstatement. The accrual is charged to Surplus/Deficit on the Provision of Services in the financial year in which the absences are accrued and it is then reversed out through the Movement in Reserves Statement so there is no impact on Council Tax.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis to the relevant service line in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises the costs for a restructuring. Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the accounting basis debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable unpaid at the year end.

Post Employment Benefits

Employees of the Council are members of the Local Government Pension Scheme, administered by Essex County Council. The Local Government Pension Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Essex pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method (i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees based on assumptions about mortality rates, employee turnover rates etc. and earnings for current employees).
- Liabilities are discounted to their value at current prices, using a discount rate (based on the indicative rate of return on high quality corporate bonds).
- The assets of Essex pension fund attributable to the Council are included in the Balance Sheet at their fair value:

- o quoted securities: current bid price
- o unquoted securities: professional estimate
- o unitised securities: current bid price
- property: market value.
- The change in the net pensions liability is analysed into the following components:

Service cost comprising:

- Current service cost: the increase in liabilities as a result of the service earned this year. This is allocated in the Comprehensive Income and Expenditure Statement to the services for which the Council employees worked.
- Past service costs: the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years. These are debited to the surplus/deficit on the provision of services in the Comprehensive Income and Expenditure Statement as part of the Resources Directorate.
- Net interest on the net defined benefit liability (asset): the change during the period in the net defined benefit liability that arises from the passage of time, charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period; taking into account any changes in the net defined benefit liability during the period as a result of contributions and benefit payments.

Remeasurements comprising:

- The return on plan assets: excluding amounts included in net interest on the defined benefit liability. This is charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- Actuarial gains and losses: changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions. These are charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

Contributions paid to the Essex pension fund:

cash paid as employer's contributions to the pension fund in settlement of liabilities;
 not accounted for as an expense for the Council, in the CIES, but charged to the General Fund through the MiRS.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standard. This means that there are appropriations to and from the Pensions Reserve to remove the notional

debits and credits for retirement benefits and replace them with debits for the cash paid to the Pension fund. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

- Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

7) Events after the Reporting Period

Events after the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period (on 31 March) and the date when the Statement of Accounts are authorised for issue.

Two types of post Balance Sheet events can be identified:

- Adjusting events are those that provide evidence of conditions that existed at the Balance Sheet date. Where material, the Statement of Accounts is adjusted to reflect the impact of such events.
- Non-adjusting events are those that are indicative of conditions that arose after the Balance Sheet date. The Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, additional disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date the Statement of Accounts is authorised for issue are not reflected in the Statement of Accounts.

8) Financial Instruments

Financial Liabilities

The Council does not have any borrowing. Trade payables (creditors) are disclosed at face value.

Financial Assets

Financial assets are classified into two types:

- Loans and receivables: assets that have fixed or determinable payments but are not quoted in an active market (e.g. short/long term deposits, trade debtors).
- Available for sale assets: assets that have a quoted market price and / or do not have fixed or determinable payments (e.g. money market funds).

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value, and

subsequently, at their amortised cost. Annual credits to the financing and investment income and expenditure line in the CIES for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest shown on debtors) and interest credited to the CIES as the amount receivable for the year in the loan agreement. Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the CIES. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the assets original effective interest rate.

Available for sale assets are recognised on the Balance Sheet when the Council becomes party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where fixed and determinable payments exist, annual credits made to the financing and investment income within the CIES for interest receivable are based on amortised cost of the asset multiplied by the effective interest rate. The fair value of available for sale assets is based on market price. As the Council only used stable net asset value funds fair value is the same as nominal value. Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

9) Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or if the asset is held for sale. Investment properties are measured initially at cost and subsequently at Fair Value (see below). Properties are not depreciated but are revalued or reviewed annually to a year-end value. As a minimum investment properties, regardless of leases, will be revalued every 5 years along with other classes of assets. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line. Directly attributable operating expenses related to investment properties are debited to the Financing and Investment Income line. Revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve (for the sale proceeds).

10) Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events are capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible assets are held by the Council which meet this criteria, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service lines in the Comprehensive Income and Expenditure Statement. Intangible assets are depreciated using the straight line method over 3 – 7 years.

11) Fair Value (FV) Measurement

The authority measures some of its non-financial assets, eg surplus assets and investment properties and certain financial instruments at FV at each reporting date. See the Glossary for the definition of FV. This authority had only 3 investment properties for 2017/18. The authority is required to measure the FV of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. When measuring the FV of a non-financial asset, the authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the authority's financial statements are categorised within the fair value hierarchy, as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 – unobservable inputs for the asset or liability

12) Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee.

All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification. Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

a) Finance Leases - Lessee

Property, Plant and Equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at the lower of its fair value measured at the lease inception and the present value of the minimum lease payments. The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Finance lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment which is applied to write down the lease liability, and
- a finance charge which is debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life and where ownership of the asset does not transfer to the Council at the end of the lease period.

b) Operating Leases - Lessee

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment.

c) Finance Leases - Lessor

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. The written-off value is appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement, so as to mitigate any impact on Council Tax.

A gain on disposal, representing the Council's net investment in the lease, is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement, matched by a long-term debtor asset in the Balance Sheet. The gain is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement.

Finance lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property which is applied to write down the lease debtor including any premiums received, and
- finance income which is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Usable Capital Receipts Reserve.

The Authority do not currently have any finance leases where they act as the lessor.

d) Operating Leases - Lessor

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Comprehensive Income and Expenditure Statement on a straight-line basis over the life of the lease.

14) Property Plant and Equipment (PPE)

Expenditure on the acquisition, creation and enhancement of fixed assets is capitalised in accordance with the accruals concept. The Council's de minimis level for capital expenditure is £10,000. Expenditure on PPE is capitalised, provided that the fixed asset yields benefit to the Council and the services it provides for a period of more than one year. This excludes expenditure on routine repairs and maintenance on PPE, which does not enhance the asset and is charged direct to service revenue accounts.

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Council does not have any borrowing costs. The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Large assets are divided into their component parts only if the components have materially different useful lives compared to the rest of the asset. This allows depreciation charges for assets to more accurately reflect the consumption of economic benefit which takes place at different rates for each component. The Council has considered the componentisation of all significant assets and has started to bring this into effect.

Assets are subsequently carried in the Balance Sheet using the following measurement bases:

- Plant, Vehicles, Furniture and Equipment assets, Infrastructure assets and Community assets: Depreciated Historic Cost
- Other (operational) land and buildings: Current Value, determined as the amount that would be paid for the asset in its Existing Use (EUV).
- Surplus Assets: Fair Value = highest and best use.
- Components of buildings: Depreciated Historic Cost

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of Current Value. Where non-property assets (Plant, Vehicles, Furniture and Equipment assets) that have short useful lives or low

values (or, both) depreciated historical cost basis is used as a proxy for Current Value.

Assets included in the Balance Sheet at current or fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their value at the financial year end, but as a minimum every five years. Between quinquennial external valuations views are sought from External Valuers to ensure that the asset values reported in the Statement of Accounts remain materially accurate. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service. Where decreases in value are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

15) Impairment

Assets are assessed at each financial year end as to whether there is any indication that an asset maybe impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the CIES

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

16) Depreciation

Depreciation is provided for on assets with a finite useful life (which can be determined at the time of acquisition or revaluation) according to the following policy:

 Newly acquired assets are not depreciated in the first year and assets in the course of construction are not depreciated until they are brought into use. - Where depreciation is provided for, assets are depreciated using the straight line method over the following periods:

Buildings (where appropriate)
 Infrastructure
 Vehicles, Plant & Equipment
 Land, including car parks
 S - 60 years
 3 -10 years
 Not depreciated

17) Disposals of Plant, Property and Equipment.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure statement as part of the gain or loss on disposal. Receipts from disposals are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal).

Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

All amounts for disposal of assets currently recognised on the balance sheet are categorised as capital receipts. Amounts for other asset disposals in excess of £10,000 are also categorised as capital receipts.

18) Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

19) Contingent Assets

A contingent asset arises where an event had taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

20) Reserves

The Council has the power to keep reserves for certain purposes by setting aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure is incurred that is to be financed from a reserve, it is charged to the appropriate service in that year to be included as expenditure in the Surplus / Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so there is no charge against the General Fund for the expenditure incurred.

Separate earmarked reserves are held by the Council.

Certain reserves are kept by the Council to manage the accounting processes for non-current assets(e.g. Revaluation Reserve and Capital Adjustment Account), retirement benefits (e.g. Pensions Reserve) and employee benefits (e.g. Accumulated Absences Account) and do not represent usable resources for the Council.

21) Provision for Bad and Doubtful Debts

Impairment allowances have been made in the accounts for potential bad and doubtful debts where there is a likelihood arising based on past events and experience that cash received will be lower than the carrying amount for receivables. Known uncollectable debts have been written off. Allowances are typically estimated on a percentage basis, with the older the outstanding debt the higher the percentage of the debt that is provided for. All allowances are reviewed and recalculated at the end of the accounting period. Allowances are generally netted off against short term debtors on the Balance Sheet.

22) Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset and has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or government Grant, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of Council Tax.

23) Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

24) Council Tax and Non Domestic Rates

Maldon District Council is a billing authority and acts as agent, collecting council tax and non-domestic rates (NDR) on behalf of Essex County Council, Essex Fire Authority, Council Tax for Essex Police, Fire and Crime Commissioner Fire and Rescue Authority, NDR for government and, as principals, collecting council tax and NDR for themselves.

A separate fund (the Collection Fund) is required to be maintained for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

Accounting for Council Tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the authority's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the authority's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection

Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement. The Balance Sheet includes the authority's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances doubtful debts, overpayments and prepayments and appeals.

25) Provisions for Appeals against the rateable value of Business Properties

The Local Government Finance Act 2012 introduced a business rates retention scheme that enabled local authorities to retain a proportion of the business rates generated in their area. The new arrangements for the retention of business rates came into effect on 1 April 2013. Billing authorities act as agents on behalf of the major preceptors, central government and themselves and are required to make provisions for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list. This will include amounts relating to non-domestic rates charged to businesses in 2012-2013 and earlier financial years.

The Council has established a provision in the accounts for an appeal if it meets the following criteria:

- the authority has a present obligation (legal or constructive) as a result of a past event
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation
- a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate at the Balance Sheet Date of the expenditure required to settle the present obligation taking risks and uncertainties into account.



Agenda Item 9



REPORT of DIRECTOR OF RESOURCES

AUDIT COMMITTEE 26 MARCH 2018

EXTERNAL AUDIT - GRANT CLAIM CERTIFICATION: YEAR ENDED 31 MARCH 2017

1. PURPOSE OF THE REPORT

1.1 To inform the Committee of the External Auditors' Grant Claim Certification for the year ended 31 March 2017.

2. RECOMMENDATION

That the Grant Claim Certification for the year ended 31 March 2017 (APPENDIX 1) be noted.

3. SUMMARY OF KEY ISSUES

2.1 This report is for Members' information only.

2.2 Grant Claim Certification

- 2.2.1 The Council's External Auditors undertake grant claim certification of the Housing Benefit Subsidy on behalf of the Government in accordance with Certification Instructions and the Statement of Responsibilities.
- 2.2.2 The attached report on Grant Claim Certification for the year ended 31 March 2017 (APPENDIX 1) provides further details of the review and findings, including a summary of the status of grant claims audited, amendments made, the impact on subsidy, and the fee for this work.
- 2.2.3 The fees for the audit of the grant returns for 2016 / 17 were £13,283. Further details are included within the report (**APPENDIX 1**).

4. CONCLUSION

4.1 The report concludes the value of the Housing Benefits Subsidy to be £14,848,901. Details of the effect on subsidy and management response to issues identified are in the report at **APPENDIX 1**.

5. IMPACT ON CORPORATE GOALS

5.1 The grants audit process contributes to the Council goal of delivering good quality, cost effective and valued services in a transparent way.

6. IMPLICATIONS

- (i) <u>Impact on Customers</u> The Revenues and Benefits Service has responded positively to matters raised by the External Auditor in Grants Reports, thus reducing the incidents of error.
- (ii) <u>Impact on Risk</u> Risk of financial loss due to errors is minimised by the procedures and processes operated by the Council.
- (iii) Impact on Equalities None identified.
- (iv) <u>Impact on Resources (financial)</u> There is budgetary provision to meet these fees.
- (v) Impact on Resources (human) None identified.
- (vi) <u>Impact on the Environment</u> No implications arising from this report.

Background Papers: None.

Enquiries to: Emma Foy, Director of Resources, (Tel: 01621 875762).

Certification of claims and returns annual report 2016-17

Maldon District Council

January 2018

Ernst & Young LLP







Ernst & Young LLP Tel: + 44 1582 643 476 400 Capability Green Fax: + 44 1582 643 001 Luton ey.com Bedfordshire

The Members of the Audit and Risk Committee Maldon District Council Princes Road Maldon CM9 5DL 26 January 2018 Ref: DH/HB17/MDC

Direct line: 07974 006715 Email: dhanson@uk.ey.com

Dear Members

Certification of claims and returns annual report 2016-17 Maldon District Council

We are pleased to report on our certification and other assurance work. This report summarises the results of our work on Maldon District Council's 2016-17 claims.

Scope of work

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

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

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

Summary

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

We checked and certified the housing benefits subsidy claim with a total value of £14.8 million. We met the submission deadline. We issued a qualification letter for the housing benefit scheme claim and details of the qualification matters are included in Section 1.

Fees for certification are summarised in section 2. The housing benefits subsidy claim fees for 2016-17 were published by the Public Sector Audit Appointments Ltd (PSAA) in March 2016 and are now available on the PSAA's website (www.psaa.co.uk).

We welcome the opportunity to discuss the contents of this report with you at the 26 March 2018 Audit and Risk Committee.



Yours faithfully

Debbie Hanson Associate Partner Ernst & Young LLP Enc

Contents

1.	Housing benefits subsidy claim	.1
2.	2016-17 certification fees	.3
3.	Looking forward	.4
4.	Appendix A: Matters giving rise to qualification	4

1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£14,848,901
Amended/Not amended	Not amended
Qualification letter	Yes
Fee – 2016-17	£13,283
Fee – 2015-16	£13,200

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

The certification guidance requires auditors to complete more extensive '40+' or extended testing if initial testing of a sample of 20 cases identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out as a result of errors that have been identified in the audit of previous years' claims. We found errors and carried out extended testing in several areas.

Extended and other testing did not identify any errors which required amendment of the subsidy claim by the Council. We have reported overpayments, underpayments, uncertainties and the extrapolated value of other errors in a qualification letter. The DWP then decides whether to ask the Council to carry our further work to quantify the error or to claw back the benefit subsidy paid.

Our testing only identified errors in relation to rent allowance payments, which are the main benefit type paid by the Council. We have summarised below the main issues we reported in our qualification letter, which is included at Appendix 1:

- Initial testing identified one case resulting in an overpayment of benefit due to a miscalculation of the claimant's income. Extended '40+' testing was undertaken identifying three further errors. In one case the claimant's income was calculated incorrectly resulting in an overpayment of benefit and over claim of subsidy. In the other 2 cases the errors resulted in an underpayment of benefit, and therefore had no impact on subsidy claimed. The extrapolated impact of the errors was an over claim of subsidy of £33.
- Initial testing identified one case where the Authority had underpaid as a result of
 incorrectly calculating the claimant's tax creditor. Extended '40+' testing was
 undertaken as the nature of the error will not always result in an underpayment. This
 identified five cases of underpayment of benefit and two cases of overpayment. The
 extrapolated impact of the errors was an over claim of subsidy of £5,444.
- Initial testing identified two cases which resulted in the benefit being overpaid as a
 result of a date input error in the change of circumstances. Extended '40+' testing
 was undertaken, this testing identified 10 cases with errors; six cases where benefit
 had been underpaid and four cases where the Authority had overpaid benefit as a
 result of the error. The extrapolated impact of the errors was an over claim of subsidy
 of £4,171.
- Initial testing of the rent allowance eligible overpayments identified two cases where
 the overpayment was incorrectly classified as eligible overpayment rather than local
 authority error. As a result subsidy has been overpaid. Extended '40+' testing was

undertaken identifying one further case where the overpayment should not have been raised. The combined impact of these errors when extrapolated was to overstate eligible overpayment errors (on which the Council receives 40% subsidy) by £810.

2.2016-17 certification fees

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

Claim or return	2016-17	2016-17	2015-16
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	13,283	13,283	13,200

The final fee is consistent with the indicative fee set by PSAA.

3. Looking forward

2017/18

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

The Council's indicative certification fee for 2017/18 is £13,200. This was set by PSAA and is based on final 2015/16 certification fees.

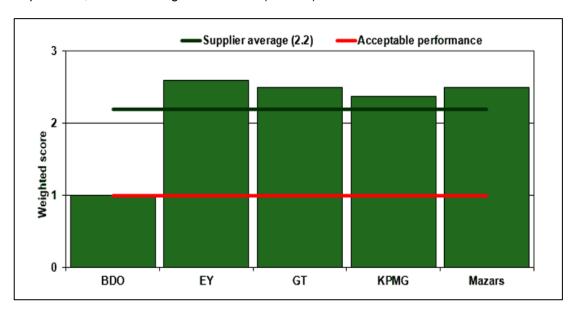
Details of individual indicative fees are available at the following web address: https://www.psaa.co.uk/audit-fees/201718-work-programme-and-scales-of-fees/individual-indicative-certification-fees/

We must seek the agreement of PSAA to any proposed variations to these indicative certification fees. We will inform the Director of Resources before seeking any such variation.

2018/19

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

We currently provide HB subsidy certification to 106 clients, through our specialist Government & Public Sector team. We provide a quality service, and are proud that in the PSAA's latest Annual Regulatory and Compliance Report (July 2017) we score the highest of all providers, with an average score of 2.6 (out of 3).



Appendix A: Matters giving rise to qualification

Cell 94: Rent Allowance - Total Expenditure (benefit granted)

Cell Total: £14,854,250 Cell population: 3,284 Headline Cell: £14,854,250

The testing of the initial sample identified:

- ▶ 1 case (total case value £4,500) where the Authority had overpaid benefit as a result of miscalculating the claimant's income.
- ▶ 1 case (total case value £1,820) where the Authority has underpaid benefit as a result of miscalculating the claimant's income. This was due to prior year parameters being used and hence would only ever result in an underpayment so no impact on subsidy. In addition this case had a period where the claim was stopped and then reinstated Family Premium should have been reinstated but it wasn't and this resulted in an underpayment, however this would always result in an underpayment so again no impact on subsidy. For this case the tax credit has also been applied at the incorrect rate which has also resulted in an underpayment of benefit. Since this could result in an underpayment or overpayment 40+ testing has been carried out on tax credits;
- ▶ 3 cases (total case value £8,777) where the change in date of award (resulting from changes in circumstances) has not been actioned correctly and this has resulted in an overpayment of benefit for 2 of the cases and an underpayment for 1 case. 40+ testing has been carried out on change in date of award; and

Each of these errors is dealt with separately below:

Error in Earnings

Cell 94: Rent Allowance – Total Expenditure (benefit granted)
Cell Total £14,854,250
Cell Total £5,086,201 – sub population
Cell population 1,332
Headline Cell £14,854,250

Testing of the initial sample identified 1 case (total case value £4,500) where the Authority had overpaid benefit as a result of miscalculating the claimant's income. As a result subsidy has been overpaid, the effect of this error is to overstate cell 102, with a corresponding understatement of cell 113; there is no impact on cell 094.

Given the nature of the population and the errors found, and additional random sample of 40 cases was selected from a sub-population of claims with an earnings element. This additional testing identified:

- ▶ 1 case (total case value £114) where the Authority had overpaid benefit as a result of miscalculating the claimant's income. As a result subsidy has been overpaid, the effect of this error is to overstate cell 103, with a corresponding understatement of cell 113; there is no impact on cell 094.
- ➤ 2 cases (total case value £8,167) where the Authority had underpaid benefit as a result of miscalculating the claimant's income. As there is no eligibility for subsidy that has not

been paid, these underpayments do not affect subsidy, and have not been classified as an error for subsidy purposes.

The results of our 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:	Cell adjustment:	Revised cell total if adjustment applied:
		[CT]	[SE]	[SV]	[SE/SV]	[SE/SV times CT]	[RA]
Initial sample – 10 cases	Incorrect assessment of earned income	£5,086,201	(£0.15)	£41,477			
Additional sample – 40 cases	Incorrect assessment of earned income	£5,086,201	(£1.29)	£177,789			
Combined sample – 60 cases	Incorrect assessment of earned income	£5,086,201	(£1.44)	£219,266	(0.0006567)	(£33)	5,086,168
Adjustment	Combined sample. Cell 102 overstated.	£5,086,201	(£0.15)	£219,266	(0.0000684)	(£3)	
Adjustment	Combined sample. Cell 103 overstated.	£5,086,201	(£1.29)	£219,266	(0.0005883)	(£30)	
Total Corresponding adjustment	Total understatement of cell 113.	-	-	-	-	£33	

The percentage error rate in our sample reflects the individual cases selected. The value of the errors found range from £0.15 to £158.76 and the benefit periods range from 1 week to 16 weeks. Similar findings were included in our qualification letters for 2013/14, 2014/15 and 2015/16.

Given the nature of the population and the variation in the errors found, it is unlikely that even significant additional work will result in amendments to the claim form that will allow me to conclude that it is fairly stated.

Tax Credits

Cell 94: Rent Allowance – Total Expenditure (benefit granted)
Cell Total £14,854,250
Cell Total £3,916,223 – sub population
Cell population 971
Headline Cell £14,854,250

Testing of the initial sample identified 1 case (total case value £1,820) where the Authority had underpaid benefit as a result of an error in the calculation of the claimant's tax credits. As there is no eligibility to subsidy for benefit that has not been paid, these underpayments do not affect subsidy and have not, therefore, been classified as an error for subsidy purposes. However, because errors in the calculation of tax credits could result in overpayments an additional random sample of 40 cases was tested from the sub-population of cases with a tax credit element. This additional testing identified:

- ▶ 2 cases (total case value £15,074) where the Authority had overpaid benefit as result of an error in the calculation of the claimant's tax credits. As a result subsidy has been overpaid, the effect of these errors is to overstate cell 102 and 103, with a corresponding understatement of cell 113; there is no impact on cell 094.
- ▶ 5 cases (total case value £16,975) where the Authority had underpaid benefit as result of an error in the calculation of the claimant's tax credits. As there is no eligibility to subsidy for benefit that has not been paid, these underpayments do not affect subsidy and have not, therefore, been classified as an error for subsidy purposes.

The results of our 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:	Cell adjustment:	Revised cell total if adjustment applied:
		[CT]	[SE]	[SV]	[SE/SV]	[SE/SV times CT]	[RA]
Initial sample – 5 cases	Tax credit applied at incorrect amount	£3,916,223	(£0.03)	£21,445			
Additional sample – 40 cases	Tax credit applied at incorrect amount	£3,916,223	(£262.29)	£167,721			
Combined sample – 60 cases	Tax credit applied at incorrect amount	£3,916,223	(£262.29)	£189,166	(0.139)	(£5,444)	£3,910,779
Adjustment	Combined sample. Cell 102 overstated.	£ 3,916,223	(£245.54)	£189,166	(0.130)	(£5,091)	
Adjustment	Combined sample. Cell 103 overstated.	£3,916,223	(£16.75)	£189,166	(0.009)	(£353)	
Total Corresponding adjustment	Total understatement of cell 113.	-	-	-	-	£5,444	

The percentage error rate in our sample reflects the individual cases selected. The value of the errors found range from £0.03 to £186.12 and the benefit periods range from 1 week to 19 weeks. Similar findings were included in our qualification letters for 2013/14, 2014/15 and 2015/16.

Given the nature of the population and the variation in the errors found, it is unlikely that even significant additional work will result in amendments to the claim form that will allow me to conclude that it is fairly stated.

Change in Date of Award

Cell 94: Rent Allowance – Total Expenditure (benefit granted)
Cell Total £14,854,250
Cell Total £5,086,201 – sub population
Cell population 1,332
Headline Cell £14,854,250

The testing of the initial sample identified 2 cases (total case value £7,071) where the Authority had overpaid benefit as a change in the claimant's circumstances had been applied from an incorrect date. As a result subsidy has been overpaid, the effect of these errors is to overstate cell 95 and 102, with a corresponding understatement of cell 113; there is no impact on cell 094.

Given the nature of the population and the errors found, we undertook specific testing to check whether the change in date of award was correctly applied in our random sample of 40 cases already selected for the sub-population of error in earnings.

This additional testing identified:

- ▶ 4 cases (total case value £18,270) where the Authority had overpaid benefit as a change in the claimant's circumstances had been applied from an incorrect date. As a result subsidy has been overpaid, the effect of these errors is to overstate cells 99 and 103, with a corresponding understatement of cell 113; there is no impact on cell 094.
- ▶ 6 cases (total case value £28,183) where the Authority had underpaid benefit as a change in the claimant's circumstances had been applied from an incorrect date. As there is no eligibility to subsidy for benefit that has not been paid, these underpayments do not affect subsidy and have not, therefore, been classified as an error for subsidy purposes.

The results of our 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:	Cell adjustment:	Revised cell total if adjustment applied:
		[CT]	[SE]	[SV]	[SE/SV]	[SE/SV times CT]	[RA]
Initial sample – 10 cases	Change in award applied from incorrect date	£5,086,201	(£22.68)	£41,477			
Additional sample – 40 cases	Change in award applied from incorrect date	£5,086,201	(£156.02)	£177,789			
Combined sample – 60 cases	Change in award applied from incorrect date	£5,086,201	(£178.70)	£219,266	(0.082)	(£4,171)	£5,082,030
Adjustment	Combined sample. Cell 095 overstated.	£ 5,086,201	£0.22	£219,266	(0.0001)	(£5)	

Adjustment	Combined sample. Cell 099 overstated.	£ 5,086,201	£40.15	£219,266	(0.0185)	(£941)	
Adjustment	Combined sample. Cell 102 overstated.	5,086,201	£22.46	£219,266	(0.0103)	(£524)	
Adjustment	Combined sample. Cell 103 understated.	£ 5,086,201	£115.87	£219,266	(0.0531)	(£2,701)	
Total Corresponding adjustment	Total understatement of cell 113.	-	-	-	-	£4,171	

The percentage error rate in our sample reflects the individual cases selected. The value of the errors found range from £0.03 to £65 and the benefit periods range from 1 week to 16 weeks. Similar findings were included in our qualification letters for 2013/14, 2014/15 and 2015/16.

Given the nature of the population and the variation in the errors found, it is unlikely that even significant additional work will result in amendments to the claim form that will allow me to conclude that it is fairly stated.

Eligible Overpayments

Cell 114: Rent Allowance – Local Authority Eligible Overpayments (Current Year)
Cell Total £201,014
Cell population 860
Headline Cell £14,854,250

Testing of the initial sample identified 2 cases (total case value £11,324) where the overpayment should have been classified in cell 113 (LA error) not cell 114. Consequently, cell 114 is overstated and cell 113 is correspondingly understated. There is no effect on cell 094.

Given the nature of the population and the errors found, we tested an additional random sample of 40 cases from the sub-population of eligible overpayments.

This additional testing identified:

▶ 1 case (total case value £9.20) where the overpayment should not have been raised and cell 114 is therefore overstated and cell 103 is correspondingly understated; there is no effect on cell 94.

The results of our 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:	Cell adjustment:	Revised cell total if adjustment applied:
		[CT]	[SE]	[SV]	[SE/SV]	[SE/SV times CT]	[RA]
Initial sample – 9 cases	Misclassification of overpayment	£201,014	(£160.34)	£38,289			
Additional sample – 40 cases	Error in calculation of overpayment	£201,014	(£9.20)	£3,825			
Combined sample – 60 cases	Misclassification of overpayment	201,014	(160.34)	£42,114	(0.381)	(766)	£200,248
Combined sample – 60 cases	Error in calculation of overpayment	£201,014	(£9.20)	£42,114	(0.0219)	(£44)	£200,970
Adjustment	Combined sample. Cell 114 overstated.	£201,014	£169.54	£42,114	(0.4026)	£810	
Total Corresponding adjustment	Total understatement of cell 113.	-	-	-	-	£766	
Total Corresponding adjustment	Total understatement of cell 103	-	-	-	-	£44	

The percentage error rate in our sample reflects the individual cases selected. The value of the error found was £9.20 to £103.90 and the benefit periods range from 1 week to 3 weeks. Similar findings were included in our qualification letters for 2013/14, 2014/15 and 2015/16.

Given the nature of the population and the variation in the errors found, it is unlikely that even significant additional work will result in amendments to the claim form that will allow me to conclude that it is fairly stated.

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Ernst & Young LLP

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Agenda Item 10



REPORT of DIRECTOR OF RESOURCES

to AUDIT COMMITTEE 26 MARCH 2018

EXTERNAL AUDIT UPDATE

1. PURPOSE OF THE REPORT

- 1.1 To inform the Committee of the External Audit Plan (**APPENDIX 1**) produced by Ernst and Young Accountants LLP (EY), which sets out their proposed audit approach and scope for the 2017 / 18 audit.
- 1.2 To inform Members of the Committee regarding the briefing note published by the Council's External Auditor, EY.

2. RECOMMENDATIONS

- (i) that the External Audit Plan as shown in **APPENDIX 1** be reviewed and commented on;
- (ii) that the briefing by EY as shown in **APPENDIX 2** be reviewed and commented on.

3. SUMMARY OF KEY ISSUES

- 3.1 This report is for Members' information only.
- 3.2 Audit Plan
- 3.2.1 The External Audit plan as attached at **APPENDIX 1** sets out the work that EY plans to perform.
- 3.2.2 The Audit Plan provides further details of the External Audit fees and related assumptions, scope of the audit, risk assessment, and key outputs from the audit including the communication to those charged with governance.
- 3.3 The External Auditor has published a briefing for distribution to Members of the Audit Committee. This is included in **APPENDIX 2** of this report Audit Committee Sector Update.

4. **CONCLUSIONS**

4.1 This report outlines EY's audit approach and scope for the 2017 / 18 audit.

5. IMPACT ON CORPORATE GOALS

5.1 The report links to the Maldon District Council goal of 'Delivering good quality, cost effective and valued services'.

6. IMPLICATIONS

- (i) <u>Impact on Customers</u> None.
- (ii) <u>Impact on Equalities</u> None.
- (iii) <u>Impact on Risk</u> None.
- (iv) <u>Impact on Resources (financial)</u> Budget provision is available to fund the fees as outlined in **APPENDIX 1**.
- (v) <u>Impact on Resources (human)</u> –None.
- (vi) **Impact on the Environment** None.

Background papers: None.

Enquiries to: Emma Foy, Director of Resources, (Tel: 01621 875762).



Private and Confidential 09 March 2018

Council Offices, Princes Road, Maldon CM9 5DL

Dear Audit Committee Members

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

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

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

We welcome the opportunity to discuss this report with you on Thursday, 26 March 2018 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Debbie Hanson. For and on behalf of Ernst & Young LLP Enc

Contents



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee, other members of the Authority and Senior management of Maldon District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee, other members of the Authority and Senior management of Maldon District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



Overview of our 2017/18 audit strategy

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

	Audit risks and areas of focu	IS		
	Risk / area of focus	Risk identified	Change from PY	Details
	Risk of Management Override	Significant Risk/Fraud	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
ט	Estimation Process in Valuation of Specialised Assets	Other Inherent Risk	No change in risk or focus	The Council undertakes an annual exercise to revalue property assets. The valuation of these assets represents a significant accounting estimate give that the value of properties involved was over $\pounds 43m$ at 31 March 2017. The accounting entries arising from changes in value have a significant impact on the Council's financial statements. We will undertake specific testing to address the risk that the accounting estimate could be materially misstated.
10e 87	Estimation Process for IAS19 Liability	Other Inherent Risk	No change in risk or focus	The Council annually updates the pension liability shown on the balance sheet and reflects the costs that it incurs as an employer with staff in the Essex County Council Pension Fund. The amounts for the liability and service costs are provided by actuaries engaged by the Pension Fund. These amounts are a significant accounting estimate. We will undertake specific testing to address the risk that the accounting estimate could be materially misstated.
i	Earlier accounts deadline	Inherent risk	New risk	The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. The timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.

Materiality

Planning materiality Planning materiality has been set at £658,000, which represents 2% of the prior years gross expenditure.

£658k

Performance materiality has been set at £493,000. The in line with the 75% of gross expenditure used in 2016/17.

£493k

Performance materiality

> Audit differences

£33k

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement) greater than £33,000. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

©Overview of our 2017/18 audit strategy

Audit scope

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

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

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

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

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

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

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



Audit risks

Our response to significant risks

Risk of Management Override

What is the risk?

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

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

What will we do?

Our approach will focus on:

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

Audit risks

Other areas of audit focus

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

What is the risk/area of focus?

What will we do?

Property, Plant and Equipment Valuations

Other Risk

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

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

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

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of • Considering changes to useful economic lives as a result of the most experts and assumptions underlying fair value estimates.

Pension Valuation and Disclosures

Other Risk

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body. The Council's current pension fund deficit is a highly material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary. As with other councils, accounting for this scheme involves significant estimation and judgement and due to the nature, volume and size of the transactions we consider this to be a higher inherent risk.

Our approach will focus on:

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

Our approach will focus on:

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

Other areas of audit focus (Cont.)

What is the risk/area of focus?

Earlier deadline for production of the financial statements

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

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

The Council now has less time to prepare the financial statements and supporting working papers. Risks to the Council include slippage in delivering data for analytics work in format and to time required, late working papers, and internal quality assurance arrangements.

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

To mitigate this risk we will require:

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

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

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

What will we do?

We will:

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

For info only

Extract from the Accounts & Audit Regs 2015

- 10.—(1) A Category 1 authority must, after approving the statement of accounts in accordance with regulation 9(2) but not later than 31st July of the financial year immediately following the end of the financial year to which the statement relates, publish (which must include publication on the authority's website)—
 - (a) the statement of accounts together with any certificate or opinion, entered by the local auditor in accordance with section 20(2) of the Act;
 - (b) the annual governance statement approved in accordance with regulation 6(2); and
 - (c) the narrative statement prepared in accordance with regulation 8.
- (2) Where an audit of accounts has not been concluded before the date specified in paragraph (1) an authority must—
 - (a) publish (which must include publication on the authority's website) as soon as reasonably practicable on or after that date a notice stating that it has not been able to publish the statement of accounts and its reasons for this; and
 - (b) comply with paragraph (1) as if for "but not later than 31st July of the financial year immediately following the end of the financial year to which the statement relates" there were substituted "as soon as reasonably practicable after the receipt of any report from the auditor which contains the auditor's final findings from the audit which is issued before the conclusion of the audit".
- (3) Where documents are published under paragraph (1) an authority must—
- (a) keep copies of those documents for purchase by any person on payment of a reasonable sum; and
- (b) ensure that those documents remain available for public access for a period of not less than five years beginning with the date on which those documents were first published in accordance with that paragraph.



Value for Money

Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

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

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

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

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

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

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

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

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

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of no significant risks which we view as relevant to our value for money conclusion, however we will keep this assessment under review as the audit progresses.





₩ Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2017/18 has been set at £0.658 million. This represents 2% of the Council's prior year gross expenditure. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix D.



Key definitions

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

Performance materiality - the amount we use to determine the extent of our audit procedures. We have set performance materiality at £493,000 which represents 75% of planning materiality

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

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



Our Audit Process and Strategy

Objective and Scope of our Audit scoping

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

We issue an audit report that covers:

1. Financial statement audit

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

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

Procedures required by standards

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

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

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

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

€ Scope of our audit

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

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

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

Analytics:

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

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

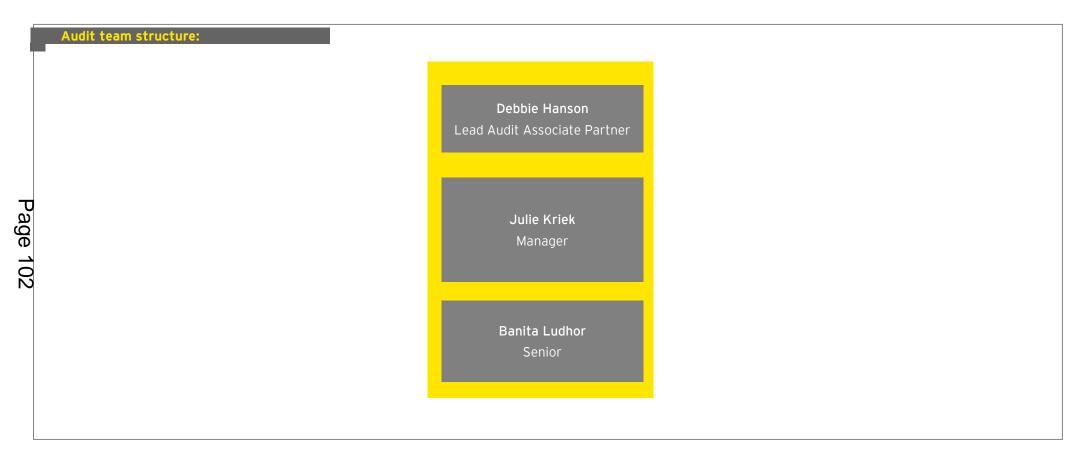
We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

Internal audit:

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



Audit team





Use of specialists

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

	Area	Specialists
		Management specialist - actuary (Barnet Waddington),
	Pensions Disclosure	Auditor specialist - EY Pensions Advisory group will review the work commissioned by the NAO for local government and fire pension funds.
		Management specialist - valuer employed by the Authority (District Valuer)
Page	Valuation of Land and Buildings	Auditor specialist - We will consider whether we need to engage with EY Estates to review the revaluation of specialised assets.
	Financial Instruments	Management specialist - valuer employed by the Authority (Arlingclose)

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

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

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





Audit timeline

Timetable of communication and deliverables

Timeline

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

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

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning:			
Risk assessment and setting of scopes.			
Walkthrough of key systems and processes	December/January	Audit Committee 26 th March 2018	Audit Planning Report
Interim audit testing	January /February		
Year end audit	June		
Audit Completion procedures			Audit Results Report
	June/ July	Audit Committee 26July 2018	Audit opinion, value for money conclusion and completion certificates
Conclusion of reporting	July	Audit Committee 26July 2018	Annual Audit Letter



Independence

Introduction

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

Required communications

Planning stage

- ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;
- The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;
- The overall assessment of threats and safeguards;
- Information about the general policies and process within EY to maintain objectivity and independence.
- Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard

Final stage

- In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;
- Details of non-audit services provided and the fees charged in relation thereto;
- Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;
- Written confirmation that all covered persons are independent;
- Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;
- Details of any contingent fee arrangements for non-audit services provided by us or our network firms;
- ▶ An opportunity to discuss auditor independence issues.

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

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

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

Relationships, services and related threats and safeguards

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

Overall Assessment

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

Self interest threats

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

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

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

At the time of writing, the current ratio of non-audit fees to audit fees is approximately 0%. We have adopted the following safeguards as a result. No additional safeguards are required.

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

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

EY Transparency Report 2017

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

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

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





Appendix A

Fees

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

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

	Planned fee 2017/18	Scale fee 2017/18	Final Fee 2016/17
	£	£	£
Total Audit - Code work	49,275	49,275	54,965
Certification of Claims and Returns	13,200	13,200	13,283
Total fees	62,475	62,475	68,249

All fees exclude VAT

*The agreed fee presented is based on the following assumptions:

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

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

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

The final fee for 2016/17 included an additional fee of £5,690 in relation to:

- ▶ additional procedures relating to Property, Plant and Equipment and Investment Property Valuations; and
- ▶ additional costs incurred relating to responding to the objections to the financial statements and subsequent elector correspondence.



Required communications with the Audit Committee

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

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit Uapproach D	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit planning report, March 2018
Significant findings from the audit	 Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures Significant difficulties, if any, encountered during the audit Significant matters, if any, arising from the audit that were discussed with management Written representations that we are seeking Expected modifications to the audit report Other matters if any, significant to the oversight of the financial reporting process 	Audit results report, July 2018



Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern O Misstatements	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ► Whether the events or conditions constitute a material uncertainty ► Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ► The adequacy of related disclosures in the financial statements	Audit results report, July 2018
Misstatements	 Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation The effect of uncorrected misstatements related to prior periods A request that any uncorrected misstatement be corrected Corrected misstatements that are significant Material misstatements corrected by management 	Audit results report, July 2018
Fraud	 Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity Any fraud that we have identified or information we have obtained that indicates that a fraud may exist A discussion of any other matters related to fraud 	Audit results report, July 2018
Related parties	 Significant matters arising during the audit in connection with the entity's related parties including, when applicable: Non-disclosure by management Inappropriate authorisation and approval of transactions Disagreement over disclosures Non-compliance with laws and regulations Difficulty in identifying the party that ultimately controls the entity 	Audit results report, July 2018



Required communications with the Audit Committee (continued)

			Our Reporting to you
	Required communications	What is reported?	When and where
Pa		Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: The principal threats Safeguards adopted and their effectiveness An overall assessment of threats and safeguards Information about the general policies and process within the firm to maintain objectivity and independence	Audit Planning Report, March 2018 and Audit results report, July 2018
qe 113	External confirmations	 Management's refusal for us to request confirmations Inability to obtain relevant and reliable audit evidence from other procedures 	Audit results report, July 2018
	Consideration of laws and regulations	 Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of 	Audit results report, July 2018
	Internal controls	► Significant deficiencies in internal controls identified during the audit	Audit results report, July 2018
	Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report, July 2018
	Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report, July 2018



Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Auditors report	 Key audit matters that we will include in our auditor's report Any circumstances identified that affect the form and content of our auditor's report 	Audit results report, July 2018
Fee Reporting	 Breakdown of fee information when the audit plan is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit planning report, March 2018 Audit results report, July 2018
ည် Certification work	Summary of certification work undertaken	Certification report



Appendix D

Additional audit information

Other required procedures during the course of the audit

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

Our responsibilities required by auditing standards

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

Purpose and evaluation of materiality

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

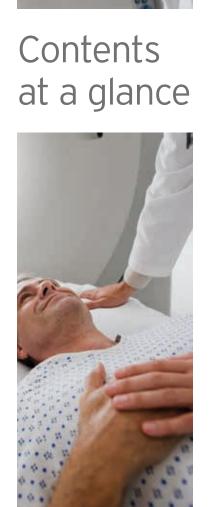
Materiality determines:

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

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

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Government and economic news	2
Accounting, auditing and governance	4
Regulation news	7
Key questions for the Audit Committee	8
Find out	8

This sector briefing is one of the ways that we support you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation, the Local Government sector, and the audits that we undertake.

The briefings are produced by our public sector audit specialists within EY's national Government and Public Sector (GPS) team, using our public sector knowledge, and EY's wider expertise across UK and international business.

The briefings bring together not only technical issues relevant to the Local Government sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing.

We hope that you find the briefing informative and should this raise any issues that you would like to discuss further, please contact your local audit team.



Will the UK economy hold up as Brexit nears?

The latest forecast from the EY Item Club highlights that UK GDP growth in 2017 was 1.8%, which was better than expected. However, it does compare unfavourably with 2017 GDP growth of 2.5% for the Eurozone, 2.3% for the US and an estimated 3.0% globally.

The momentum from 2017, an improving outlook for consumer spending, and the increased likelihood of a near-term Brexit transition arrangements are expected to support UK growth this year. With this, we have nudged up our UK GDP forecast for 2018 to 1.7%, up from the 1.4% we predicted in our Autumn forecast in October last year.

However, further out, the UK's limited productivity performance and ongoing Brexit and political uncertainties will see the UK achieve only mid-range growth. With this, we have slightly reduced our GDP growth projections for 2019 to 1.7% (down from 1.8%), 1.9% for 2020 (down from 2.0%), and 2.0% for 2021 (down from 2.2%). Although we have modestly downgraded our expectation of the UK's productivity performance, it remains more optimistic than the Office for Budget Responsibility's latest forecast. Specifically, we forecast output per hour to rise 0.9% in 2018 and then 1.3% annually during 2019–2021.

Much depends on how the Brexit negotiations develop. The expectation is that the UK and EU will make sufficient progress to agree a transition arrangement lasting at least two years, from late March 2019. Since this will have to be ratified across the EU, agreement essentially needs to be reached by October 2018. Progress towards a transition deal in late 2018 should support business confidence and a gradual pick-up in investment, helping GDP growth accelerate.

Provisional 2018-19 Local Government Finance Settlement

On 19th December 2017 the Government set out the provisional funding plan for the 2018-19 financial year, which will be the third year of the four year multi-year settlement that was accepted by 97% of local authorities. The main themes of the provisional settlement were:

Council tax referendum principles – as a result of the financial settlement consultation process the government has decided to set the core referendum principle at 3% in 2018-19 and 2019-20, to match the higher than expected inflation. This change will give local authorities more flexibility in deciding how money will be raised to offset the increasing financial pressures and demand on services. Shire district councils will be allowed an increase of 3% or £5 whichever is higher.

Continuation of the adult social care precept principle of a 2% increase, with the additional flexibility in 2018-19 to increase the precept by an additional 1%, from 2% to 3%, provided that the total increase across the three years 2017-18 to 2019-20 does not exceed 6%.

Analysis by the Local Government Association has estimated that the impact of increased flexibility in council tax precepts could be worth up to £540mn to local authorities by 2019-20. However local services are facing a total funding gap of £5.8bn in 2019-20. Therefore, the increased powers to raise council tax are not sufficient to meet the future funding gap.

Business rate retention – the Government's continued intention to reform local government financing in the future by allowing authorities to retain a greater percentage of business rates instead of receiving certain grants (including RSG, public health grant) direct from central government. By 2020–21 it is estimated that the business rate retention across the local government system would be 75%, compared to the current level of 50% retention. It was also announced that the 100% business rates retention pilot schemes were going to be expanded to include a further 10 local authorities.

New homes bonus – since inception the new home bonus has allocated £7bn to local authorities to encourage the building of over 1.2 million new homes. The Government has decided to continue to set the national baseline (below which no bonus will be paid) at 0.4% for 2018/19. The national baseline represents the annual growth of Band D properties within a local authority above which the new homes bonus will be awarded. Government retained the option to adjust the baseline in future years based on housing statistics as reported through council tax base figures. This stability will provide some security for district authorities who have based their growth strategy on the New Homes Bonus.

Carillion liquidation

Major public sector building and support services contractor Carillion plc went into compulsory liquidation on 15 January 2018. Carillion's sudden collapse is being felt across the country as a range of public services, from road building to school meals, have been unexpectedly terminated in a number of local authorities. The full extent of the affected services is yet to be determined as local authorities discuss existing contracts with the Official Receiver. Local authorities are implementing contingency plans where possible, including either finding alternative contractors or taking services back in house. For example the response from Oxfordshire County Council in relation to the provision of school meals at 90 schools supplied by Carillion was to guarantee Carillion staff who worked in schools that the county council would ensure that they were paid.

Although the Government has pledged that public services 'will be protected' after Carillion's collapse, it is unclear how or when funding from central Government will be made available to the affected local authorities.

Public sector pay

Since 2013, the Government has implement a policy of a 1% annual pay increase cap for public sector workers; which was estimated to have saved approximately £5bn by 2019-20. In the Autumn Budget 2017 the Government confirmed the end of the 1% pay increase policy. Therefore from 2018-19, pay review bodies will be able award pay increases of greater than 1% as they determine to be appropriate. After the long freeze in real terms of public sector pay future increases above 1% have been welcomed; and it is thought that this has been needed to retain talent with in the public domain. However, this will be an additional cost pressure for local authorities that will require financing.

The national employers, who negotiate pay on behalf of 350 local authorities, suggested that most employees with salaries over £19,430 should receive a 2% increase for 2018-19 and a further 2% for 2019-20. Lower salaried workers will received higher increases based on hourly pay; from £7.78 to £9.00 in April 2019 and increase equivalent to 15.65%. National employers have said this would add another 5.6% to the national pay bill over the two years to 2020.



IFRS 15 – revenue from contracts with customers

The new revenue standard, IFRS 15, creates a single source of revenue requirements for all entities in all industries and is a significant departure from legacy IFRS. The new standard applies to revenue from contracts with customers and replaces all of the legacy revenue standards and interpretations in IFRS, including IAS 11 Construction Contracts and IAS 18 Revenue.

IFRS 15 is principles-based but provides more application guidance and increased judgement. IFRS 15 also specifies the accounting treatment for certain items not typically thought of as revenue, such as certain costs associated with obtaining and fulfilling a contract and the sale of certain non-financial assets. The new standard will have little effect on some entities, but will require significant changes for others.

The standard describes the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services.

- 1. Identify the contract(s) with a customer
- 2. Identify the performance obligations in the contract
- 3. Determine the transaction price
- 4. Allocate the transaction price to the performance obligations in the contract
- 5. Recognise revenue when (or as) the entity satisfies a performance

Entities will need to exercise judgement when considering the terms of the contract(s) and all of the facts and circumstances, including implied contract terms. Entities will also have to apply the requirements of the standard consistently to contracts with similar characteristics and in similar circumstances.

The 2018/19 Code of practice on Local Authority Accounting in the United Kingdom (the Code) will determine how IFRS 15 revenue from customers with contracts will be adopted by local government bodies. The 2018/19 Code will apply to accounting periods starting on or after 1 April 2018 but has not yet been published. The CIPFA/LASAAC Local Authority Accounting Code

Board met on 6 June 2017 and discussed the implication of IFRS 15 on Local Government entities. The minutes of this meeting corroborate our view that for most entities income streams from contracts with customers are likely to be immaterial. The vast majority of income streams are taxation or grant based which do not fall within the scope of IFRS 15 as they are not contractually based revenue from customers.

However, this may not always be the case for some smaller English authorities or authorities where there is a high public interest in commercial activities. The following income streams are within the scope of IFRS 15 and will need special consideration if they are material to the users of the financial statements:

- ► Fees and charges for services under statutory requirements
- > Sale of goods provided by the authority
- Charges for services provided by a local authority

EY - CIPFA Accounts Closedown Workshop 2017-18

EY and CIPFA Financial Advisory Network (FAN) are continuing to work in partnership to deliver a programme of accounts closedown workshops to support local government finance professionals across the country with separate events for police bodies and English, Welsh and Scottish local authorities. The workshop programme covers the key changes impacting on the production of the 2017/18 financial statements and the outcomes of the 'telling the story' changes to the Code of Practice on Local Authority Accounting in 2016/17. Looking forward there are significant changes to IFRS that will come through in the 2018/19 Code and later, so the workshops are also focused on the key risks in relation to the new Financial Instruments standard IFRS 9 and other future expected changes in the Code with potential to impact on the General Fund and the HRA. These workshops also aim to prepare local authority finance staff for a 'faster, smarter and more accurate' accounts closedown for 2017-18.

By the end of this May, your local authority will need to publish its unaudited statement of accounts and publish audited accounts by the end of July. These changes provide risks for both the preparers and the auditors of the financial statements. Local Authorities will now have less time to prepare the financial statements and supporting working papers. As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within same compressed timetable. Failure to meet a deadline at one client could potentially put delivery of others

To mitigate this risk we will require:

- Good quality draft financial statements and supporting working papers by the agreed deadline
- Appropriate staff to be available throughout the agreed audit period
- ► Complete and prompt responses to audit questions

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

Of the 150 authorities we audit, we currently consider that around a quarter have left themselves a significant amount of work to do to get there and are running a real risk of missing the deadline because they will not have quality draft accounts and supporting evidence ready for their auditors by the end of May.

In addition to our workshops with CIPFA, we have held events in each of our local offices and gathered insights from over 100 practitioners and their local audit teams on the importance of what finance teams and auditors each need to do, and collaboratively, to achieve a successful faster closure. We have put together a comprehensive list of actions to streamline processes, work more collaboratively with their auditors and draw on EY's analytics and innovative audit approach to achieve faster close. We include a summary below.

Summary of faster close activities

Finance teams are:

- Critically appraising the content of their accounts, removing unnecessary disclosures
- Closing the ledger earlier and encouraging greater discipline across the authority to comply with deadlines for accruals
- Preparing discrete sections of the accounts (e.g., narrative report and remuneration notes) and associated working papers earlier to facilitate early audit work
- Focusing on judgements and significant estimates earlier including engagement with auditors
- Reviewing the de-minimis level for accruals, including discussion with auditors
- Conducting a hard close for monthly reconciliations e.g., bank reconciliations, feeder systems, etc., with a zero-tolerance to reconciling items over a month old
- Undertaking weekly cut-off testing in April to ensure that the accounts are complete, retaining the evidence in case that item is selected for audit testing

Auditors are:

Meeting regularly with finance staff, sharing details of the audit approach, agreeing a planned timetable of tasks, communicating changes and providing clarity on what is expected and when

- Bringing forward testing to reduce the amount needed to do in the summer. In particular, valuation of land and building and other high risk areas
- Increasing the use of analytics to interrogate ledger and payroll transaction data
- Using the online EY client portal to streamline communications with finance teams
- Attending workshops with finance teams on accounting issues and effective working papers
- Selecting items for sample testing earlier

Together finance teams and auditors are:

- Holding regular meetings throughout the year to share progress and discuss issues
- Planning respective activities to ensure sufficient capacity on both sides
- Revisiting audit issues from the prior year, agreeing how similar issues can be avoided
- Ensuring the client assistance schedule is appropriately tailored

We have produced a faster close briefing checklist that you can use to ensure that you are doing all you can, alongside working with us, to achieve the accelerated timetable. For more information please contact your local engagement lead.



EU General Data Protection Regulation: are you ready?

On 17 December 2015, after more than three years of negotiations and several draft versions of the General Data Protection Regulation (GDPR), an informal agreement was reached between the European Parliament and Council of the European Union. The GDPR is a significant change for organisations. It introduces more stringent and prescriptive data protection compliance challenges, backed by fines of up to 4% of global annual revenue. The regulation replaces Directive 95/46/EC, which has been the basis of European data protection law since it was introduced in 1995.

The Regulation has a significant impact on organisations in all sectors, bringing with it both positive and negative changes in terms of cost and effort.

Key changes proposed by the EU GDPR include:

- Regulators can impose fines of up to 4% of total annual worldwide turnover or €20,000,000
- Data Protection Officers (DPOs) DPOs must be appointed if an organisation conducts large scale systematic monitoring or processes large amounts of sensitive personal data
- Accountability organisations must prove they are accountable by establishing a culture of monitoring data processing procedures, minimising data retention and building safeguards, and documenting data processing procedures
- Organisations must undertake Privacy Impact Assessments when conducting risky or large scale processing of personal data

- Consent to process data must be freely given, explicit and individuals must be informed of their right to withdraw their consent
- Organisations must notify supervisory authorities of data breaches 'without undue delay' or within 72 hours, unless the breach is unlikely to be a risk to individuals
- ► Introduction of new rights right to be forgotten, right to data portability and right to object to profiling
- Organisations should design data protection into the development of business processes and new systems and privacy setting should be set a high level by default
- ▶ Data processors become an officially regulated entity

Whilst organisations may welcome the harmonisation of laws across the 28 EU member states which will make the complex data protection landscape easier to navigate, the introductions of new rights for individuals are likely to increase the regulatory burden for organisations.

Organisations need to review their current data protection compliance programmes to determine next steps and decide on the level of investment they need to make before 2018 to address the changes.

Organisations need to act now to ensure that they are ready to comply with the new Regulation when it comes into force on 25 May 2018.

Key questions for the Audit Committee

Has your local Authority considered the changes to council tax flexibilities into the 2018-19 budget And the impact of changes to business rate retention into your Medium Term Financial Strategy?

Has your local authority been affected by the collapse of Carillion plc? How have contingency plans been implemented to maintain public services? What (if any) is the local authority's financial exposure to this event?

Has your local authority included in its budget any likely increases of employee wages above 1%?

Has your Authority considered how IFRS 15 might impact your revenue streams?

How has the local authority prepared for the accelerated accounts closedown timetable for 2017-18?

Has the Authority considered the implications of the new GDPR, and is the Authority confident that it comply with its requirements when it comes into force?

Find out more

EY ITEM Club Forecast

http://www.ey.com/uk/en/issues/business-environment/financial-markets-and-economy/item---forecast-headlines-and-projections

2018-19 Local Government Finance Settlement

https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2018-to-2019

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/669538/LGFS_consultation_2018-19.pdf

https://www.local.gov.uk/parliament/briefings-and-responses/provisional-local-government-finance-settlement-201819-day

http://www.cipfa.org/about-cipfa/press-office/archived-press-releases/2017-press-releases/cipfa-responds-to-the-provisional-local-government-finance-settlement?crdm=0

Carillion collapse

http://www.publicfinance.co.uk/news/2018/01/public-sector-looks-ways-plug-gap-left-carillion

http://www.publicfinance.co.uk/news/2018/01/public-services-will-be-protected-after-carillion-collapse

Public sector pay

http://researchbriefings.files.parliament.uk/documents/CBP-8037/CBP-8037.pdf

http://www.publicfinance.co.uk/news/2017/12/local-employers-issue-2-pay-offer-each-next-two-years

IFRS 15 - revenue from contracts with customers

http://www.ey.com/Publication/vwLUAssets/ey-applying-revenue-october-2017/\$FILE/ey-applying-revenue-october-2017.pdf

EY - CIPFA Accounts Closedown Workshop 2017-18

For Faster Close Activities Checklist: please contact your local engagement lead

For a full list of locations and dates available search for 'Accounts Closedown Workshop' at http://www.cipfa.org/training



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ED None

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Agenda Item 11



REPORT of DIRECTOR OF RESOURCES

to AUDIT COMMITTEE 26 MARCH 2018

INTERNAL AUDIT UPDATE

1. PURPOSE OF THE REPORT

- 1.1 This report provides an update on progress to date of the following aspects of Internal Audit:
 - work completed and any deviances to, or slippage, on the Internal Audit Plan 2017 / 18;
 - implementation of recommendations raised by Internal Audit;
 - the revised Strategic Internal Audit Plan 2018 2021.

2. RECOMMENDATIONS

- (i) that the progress against the 2016 / 17 Internal Audit Plan (**APPENDIX A**) is reviewed and commented on:
- (ii) that the Internal Audit Follow-up of Recommendations (**APPENDIX B**) is reviewed and commented on:
- (iii) that the Strategic Internal Audit Plan 2017 2020 (**APPENDIX C**) is reviewed and commented on.

3. SUMMARY OF KEY ISSUES

3.1 **2017/18 Internal Audit Progress report**

3.1.1 Details of the progress to date against the 2017/18 Internal Audit Plan are attached at **APPENDIX A** to this report.

3.2 Internal Audit Follow-Up of Recommendations

3.2.1 Details of the progress to date with regard to the implementation of recommendations raised by Internal Audit are attached at **APPENDIX B** to this report. Members are advised that Andrew Barnes, Senior Manager from BDO LLP will be in attendance to present the report.

- 3.3 Strategic Internal Audit Plan 2018 2021
- 3.3.1 Internal Audit is required to prepare a risk based audit plan which takes account of the adequacy and outcomes of the Authority's assurance processes.
- 3.3.2 Following the appointment of BDO LLP as the Council's Internal Audit Service provider, they have been working with the Corporate Leadership Team and Level two managers to develop the 2017 / 18 Internal Audit Plan as shown in **APPENDIX C**. Initial views have also been sought from the Chairman of the Audit Committee.

4. **CONCLUSIONS**

4.1 This report updates Audit Committee Members on matters relating to Internal Audit.

5. IMPACT ON CORPORATE GOALS

5.1 The report links to the Maldon District Council goal of 'Delivering good quality, cost effective and valued services'.

6. IMPLICATIONS

- (i) <u>Impact on Customers</u> None.
- (ii) **Impact on Equalities** None.
- (iii) **Impact on Risk** None.
- (iv) <u>Impact on Resources (financial)</u> None.
- (v) **Impact on Resources (human)** –None.
- (vi) <u>Impact on the Environment</u> None.

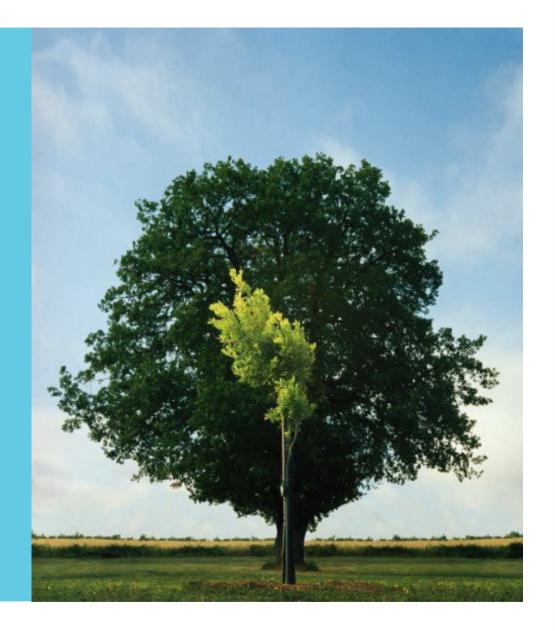
Background papers: None.

Enquiries to: Emma Foy, Director of Resources, (Tel: 01621 875762) or Andrew Barnes, Senior Audit Manager (BDO LLP)

Maldon District Council

INTERNAL AUDIT FOLLOW UP OF RECOMMENDATIONS

March 2018





RECOMMENDATION FOLLOW UP

Introduction

We regularly follow up progress with the implementation of recommendations raised by Internal Audit and bi-annually we report to the Audit Committee. We request commentary by responsible officers on the progress towards implementation of our recommendations and for high and medium priority recommendations we verify the progress to source evidence and conclude either that the recommendation is complete or incomplete.

Executive Summary - 2015/16 Recommendations

19 high and medium priority recommendations were made in 2015/16, of which 18 were confirmed to have been implemented by March 2018.

We identified that 1 medium priority recommendation was still in progress but there is a plan in place to implement that recommendation (see page 7). The remaining recommendations have been implemented. We continue to review outstanding recommendations until they are implemented.

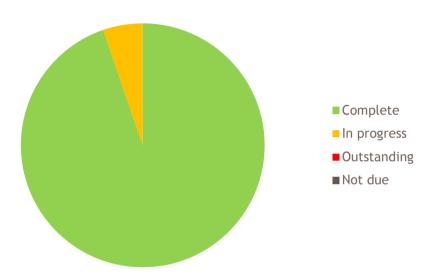
Executive Summary - 2016/17 Recommendations

For 2016/17 we raised a total of 54 high and medium priority recommendations, of which 53 were agreed by management.

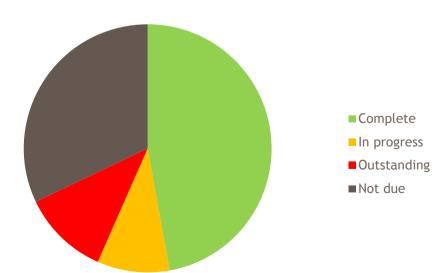
Of the 53 agreed recommendations made in 2016/17, 36 were scheduled to have been implemented at the time of our review, for those that were due to be implemented by the time of our review we identified:

- 25 recommendations have been implemented (see pages 8 to 14)
- 5 recommendations are in the process of being implemented (see pages 15 to 16)
- 6 recommendations are outstanding or pending confirmation (see pages 17 to 18)

Recommendations Summary for 2015/16



Recommendations Summary for 2016/17 - Agreed Recommendations



RECOMMENDATION FOLLOW UP

Progress since our last report in August 2017

2015/16 Recommendations

At August 2017 for the 19 high and medium priority recommendations raised in 2015/16 we identified that:

- 12 recommendations had been implemented
- We were been advised that 6 further recommendation had been implemented, but we were awaiting the evidence to confirm implementation
- 1 recommendations had been deferred pending completion of the service workplan.

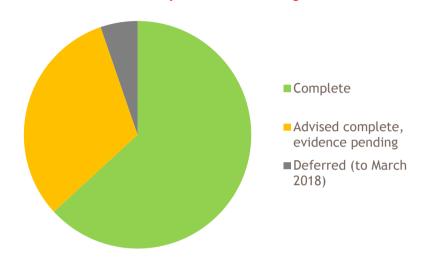
2016/17 Recommendations

Of the agreed recommendations made in 2016/17, 21 were scheduled to have been implemented at the time of our review in August 2017, for these we identified:

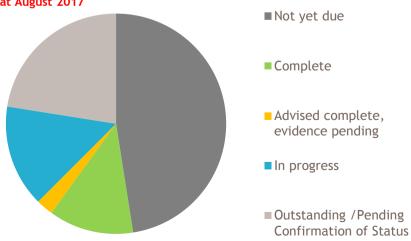
- 5 recommendations had been implemented
- We were been advised that 1 further recommendation had been implemented, but we were awaiting the evidence to confirm implementation
- 9 recommendations were outstanding or pending confirmation
- Implementation of 6 recommendations was in progress.

Comparison of the position in March 2018 (reported on page 2) with the position as at August 2017 indicates that the Council has made good progress with the implementation of recommendations over the last six months.

Recommendations Summary for 2015/16 at August 2017



Recommendations Summary for 2016/17 - Agreed Recommendations at August 2017



RECOMMENDATIONS COMPLETE - 2015/16 AUDITS

Audit	Recommendation made	Priority Level	Manager Responsible	Original Due Date	Notes on Completion
Business Continuity & Disaster Recovery	Management should put in place a defined IT Disaster Recovery Plan that is aligned to and supports the Council's continuity priorities and includes, but is not limited to: • The RTO and RPO for critical IT infrastructure, hardware and systems • The recovery procedures for the Council's IT infrastructure, hardware and systems • The procedures for invoking the Council's IT Disaster Recovery Plan • The contact details for all key members of IT, the Council and Third Party suppliers • The location of alternative sites Furthermore the IT Disaster Recovery Plan should identify the IT resources required by the Council and how they would be provided in the event of a disaster. The IT Disaster Recovery Plan should be provided to the Council's Community Safety Officer - Community Resilience and stored securely so that it can be accessed in the event of an incident The IT Disaster Recovery Plan should be reviewed on a routine basis or following a significant change	Н	IT Manager	Sep-16	ICT have a draft plan and are working with Karen Buttress to secure a new location for MCD staff to work from in a disaster. The plan will now be a living document with the direction to restore the ICT environment to cloud hosted infrastructure and start to bring in solutions that have DR by design. This includes new email services and telephony system. This is on the IT Business Plan and is now part of change control processes to be updated throughout the year

RECOMMENDATIONS COMPLETE - 2015/16 AUDITS

Audit	Recommendation made	Priority Level	Manager Responsible	Original Due Date	Notes on Completion
Main Financial System	Cash Receipting system user administration a) A full review of cash receipting system user access permissions is undertaken to ensure access levels are appropriate b) Access permissions are updated promptly on notification of staff movers and leaver c) Refunds and reversals on the cash receipting system are authorised, and the appropriateness of refund and reversal transactions made is reviewed d) Reasons for high level of refunds / reversals by General Office staff, and thus any training requirements, are identified (although the introduction of authorisation requirements may reduces the incidents of such transactions) e) Staff administering user permissions should enhance their understanding of the functions provided by different groups and access levels on the system	Н	Sue Green, Group Manager - Customers	Jun-16	Covered as part of the 2017/18 Main Financial System Audit - Council Tax and NDR. Access controls* and permissions reviewed as part of this review with no exceptions noted. Refunds and reversals are now being reviewed and authorised for CT and NDR. *A new access-related finding and recommendation was raised from the 17/18 Main Financial Systems review and will be followed up at the next round of follow up.

RECOMMENDATIONS COMPLETE - 2015/16 AUDITS

Audit	Recommendation made	Priority Level	Manager Responsible	Original Due Date	Notes on Completion
Main Financial System	Records Supporting Journals Ensure journals are supported by clear records containing the details of and justification for the journal Set approval limits for journal authorisation and communicate this to all relevant staff	М	Finance Manager	Apr-16	Approval limits of journal authorisation are in place. A sample of 20 journals were tested as part of the 2017/18 Main Financial Systems review, to ensure the amounts, date and description match between the supporting documentation and the change effected in the general ledger were accurate. The arrangements are in place for the required authorisation and supporting documentation to be in place, however three exceptions were noted as part of our testing.

RECOMMENDATIONS IN PROGRESS - 2015/16 AUDITS

Audit	Recommendation made	Priority Level	Manager Responsible	Original Due Date	Notes on Completion
Risk Management High Level review	Risk Management Survey The risk management survey should be re-performed and the results summarised and reported to a round table session with the Corporate Leadership Team and Level 2 Managers	М	Julia Bawden, Performance and Risk Officer	Nov-17 Jun-18	The expectations in respect of updating risks / mitigating actions are being reinforced at the Directorate Leadership team meetings The Risk Management Policy was reviewed and updated by the Council in 2017 and issued to members for approval. There were concerns raised with some of the corporate risks identified, delaying the approval and roll out of the policy and survey. BDO held a risk workshop for members in December 2017. The Risk Management Policy will be re-issued for member approval in March 2018. Once approved, the Council are planning on conducting an awareness exercise with management across the different departments, informing them of any changes and updates to the policy. Following this the survey will be issued in June 2018.

Audit	Recommendation Made	Priority Level	Manager Responsible	Original Due Date	Notes on Completion
Cyber crime	Information Asset Register to be established			January 2017	In light of GDPR, this recommendation has been superseded with the establishment of a Record of Processing Activities (ROPA) which builds on the information assets register to include why data is processed, under which reason of GDPR and who the data is used by internally and externally.
	Identify potential cyber security threats to MDC, then for each threat complete risk and business impact assessments	М	Simon Mitchell, IT Team Leader	January 2017	Overall risk assessment and assessment of cyber threats and the defence against them has been completed. Actions from this assessment are being taken forward as business as usual. ICT will attend the manager forum to go over 3 scenarios of cyber threats, so that services can carry out the business impact assessments as ICT do not know the information required to complete these.
	Review configuration of MDC's firewall rule set, then update where necessary and remove unnecessary rules	М	Simon Mitchell, IT Team Leader	January 2017	This work was completed as a specific task initially, but the configuration continues to be reviewed and updated as required. A spreadsheet is maintained of firewall rules and is subject to regular review.

Audit	Recommendation Made	Priority Level	Manager Responsible	Original Due Date	Notes on Completion
Information governance and PCI DSS	Perform quarterly internal / third party vulnerability scans of the IT network and then address any issues arising	М	Andrew Mowbray, IT Manager	May 2017	ICT Manager has arranged for Braintree DC to carry this out on behalf of the Council on a quarterly basis.
Investments	Reconciliations should detail Officer completing, date undertaken and be reviewed periodically to ensure completeness	М	Ann Nagy, Senior Accountant	June 2017	Reconciliations are signed and dated by the Officer completing the reconciliation and passed to the Finance Manager for review and documentation of review.
	Identify suitable independent Officer to report any suspicions about fraud to and update Treasury Management Procedures	М	Legal and Democratic Services Manager	March 2018	The update has been completed and the relevant officer will now be updated in the Treasury Management Procedures.
	Establish a formally documented authorised signatory list in place for Treasury Management	М	Ann Nagy, Senior Accountant	June 2016	A list of approved officers and signatories is in place. No further investments have been rolled over, should any be rolled over in the future they will be subject to authorisation via a journal which credits investments repaid and debits investments, recording and authorising the rolling over of the investment.

Audit	Recommendation Made	Priority Level	Manager Responsible	Original Due Date	Notes on Completion
Inventory and stock	Pursue implementation of a new stock management system, with periodic checks to verify the stock recorded	М	Ben Brown, Leisure, Countryside and Tourism Manager	September 2017	Stock control system in operation, stock checks have been performed as part of system implementation. Verification will be performed at financial year end.
	Review minimum asset value required on asset register and if reduced, record assets above the new minimum value	М	Carrie Cox, Finance Manager	September 2017	The portable assets value has been reviewed and revised Financial Regulations have been proposed to Members.
	IT to ensure all equipment in both TICs are recorded on the Asset List with regular checks to ensure the list is accurate	М	Andrew Mowbray, ICT Manager	May 2017	Site visits will be scheduled to record all configuration items at each site and update the central asset register. There is a new asset management process to have dip checking on assets throughout the year with 10% of assets to be reviewed quarterly.
Financial systems	Prepare instructions for reconciliation processes / differences identified / reconciliations reviewed	М	Carrie Cox, Finance Manager	September 2017	Reconciliations are now being completed with more narrative to ensure transparency of issues in any one month. Procedure notes have been completed as part of the section's procedure note update exercise.

Audit	Recommendation Made	Priority Level	Manager Responsible	Original Due Date	Notes on Completion
Income and debtors	Housing Service to review procedures for Rent in Advance / Bonds to ensure accurate records / invoices raised promptly	М	Carrie Cox, Finance Manager	September 2017	Procedures have been updated. Invoices raised and payments received are checked to details recorded in the log of all Rent in Advance and Bonds.
	Review and update Finance team procedure notes to reflect the current processes utilised	М	Carrie Cox, Finance Manager	September 2017	Procedure notes are now being updated on an ongoing basis and there is now a control sheet to have a central monitoring point for notes in place.
	Review Debtors Policy / Procedures to clarify expectations of service departments re debt recovery action	М	Carrie Cox, Finance Manager	September 2017	Sundry debtors policy was reported to Finance & Corporate Services Committee in November 2017.
	Collate and distribute additional management information on aged debts to ensure appropriate debt management/recovery action is taken by services	М	Carrie Cox, Finance Manager	September 2017	A new report has been generated from SAGE that is used for senior management reporting. A blacklist report has also been created to ensure that those with outstanding debts cannot have new services provided.
	Sundry debtors procedures are updated to reflect options for recovery and increase knowledge about debt recovery	М	Carrie Cox, Finance Manager	September 2017	The procedures have been updated, there are alternatives should the debt reach the court stage, and therefore these would be considered for each debt on their own merit. The Debtors office has built relations with another authority and worked with the recoveries team to build knowledge with regard to the options and processes available.

Audit	Recommendation Made	Priority Level	Manager Responsible	Original Due Date	Notes on Completion
Payments and creditors	Review and update procedure notes to properly reflect current processes	М	Carrie Cox, Finance Manager	September 2017	Procedure notes have been updated and a creditors policy was taken to Finance & Corporate Services Committee in November 2017.
	Ensuring procedures for raising orders are complied with	М	Carrie Cox, Finance Manager	September 2017	Departments have been communicated with to ensure that they are clear and do not require further advice from finance. Follow up on No PO no pay was given at the last Managers Forum Cycle.
Planning	Planning Services Improvement Plan - monitoring of performance and progress	М	Matt Leigh, Group Manager Planning Services	June 2017	Discussed at Performance & Risk Clinic 31/01/2018. Given the improved performance of the Planning Service which is monitored closely, CLT agreed that the PSIP is no longer required and this recommendation should be closed.
	Report progress of PSIP to the Corporate Leadership Team or Members	М	Matt Leigh, Group Manager Planning Services	June 2017	Discussed at Performance & Risk Clinic 31/01/2018. Given the improved performance of the Planning Service which is monitored closely, CLT agreed that the PSIP is no longer required and this recommendation should be closed.
Flooding	Identify where Planning Inspectorate decisions adversely affect flood risks and assess extent of impact and inform Planning Inspectorate where their decisions are identified to have significant impact on flood risk	М	Matt Leigh, Group Manager Planning Services	June 2017	There have been no such decisions in the past, but the risk of this occurring remains, so this will continue to be monitored.

Audit	Recommendation Made	Priority Level	Manager Responsible	Original Due Date	Notes on Completion
Channel shift and customer strategy	Identify stakeholders Articulate Data Sharing Process and implementation in conjunction with identified partners Action plan to be developed to enable data sharing	М	Sue Green, Group Manager (Customers)	December 2017	Stakeholder Engagement Guidance developed and approved by CLT. GDPR Project Officer appointed. Existing arrangements to prepare for GDPR reviewed. Project plan developed to deliver required actions. New Data Protection Policy being developed. Specific responsibility for data sharing and data protection is contained within the new role of Information Governance Officer who will support managers and staff in ensuring the appropriate legal compliance. This new role will ensure that the organisation is supported in achieving these outcomes.

Audit	Recommendation Made	Priority Level	Manager Responsible	Original Due Date	Notes on Completion
Channel shift and customer strategy (continued)	Provide clear direction to services of channel shift priorities and required actions Prepare prioritised channel shift plans (with defined actions dates and responsibility) Monitor and report progress of plans, effectiveness and outcomes	M	Sue Green, Group Manager (Customers)	December 2017	Lessons Learnt Report to CLT November 2017 to identify this as a requirement for services following a pilot service review. Proposal that a number of "champions" are trained across organisation. CLT are exploring options. CLT presentation of transformation programme to staff. Leadership Times introduced for CLT to communicate key messages to staff. Programmes of work and project briefs developed with timescales and actions. These will be monitored by CLT / Transformation Board. These plans are monitored by CLT / Transformation Board.
Council Tax and NNDR	The Revenues and Benefits teams should complete the Academy to Ledger Income balancing reconciliation on a fortnightly basis and this reconciliation should be reviewed and signed off by another member of staff	М	Sue Green, Group Manager (Customers)	December 2017	Arrangements have now been put in place and this is being done.
	The Financial Services Delegation Arrangements document should be updated to ensure it contains reference to relevant Officers and should be reviewed annually to ensure that it remains up to date	М	Sue Green, Group Manager (Customers)	December 2017	This has been updated to remove reference to staff no longer in post.

RECOMMENDATIONS IN PROGRESS - 2016/17 Audits

Audit	Recommendation Made	Priority Level	Manager Responsible	Original Due Date	Notes on Completion
Cyber Crime	Undertake a cyber security training needs assessment to determine the training needs	М	Simon Mitchell, IT Team Leader	March 2018	MetaPhish is an email phishing simulator that the Council has access to and have run an exercise increasing all staff and members awareness of the risks from phishing emails and attachments. This will be regularly run up until June 2018 when the contract expires. Once complete an annual training plan will be put in place so that training (online, email and course based) will be carried out throughout the year. NCSC's staff awareness and training material is going to be publicised to staff and members during 2018. Target date extended to March 2018.
	Determine the baselines for normal network activity	М	Simon Mitchell, IT Team Leader	March 2018	Network monitoring software has been purchased and deployed but needs to go live. An intrusion detection system is in place that alerts ICT when there is any suspect behaviour. There is a record of IPs that can connect to the council's network in the WatchGuard perimeter firewall.

RECOMMENDATIONS IN PROGRESS - 2016/17 Audits

Audit	Recommendation Made	Priority Level	Manager Responsible	Original Due Date	Notes on Completion
Planning	Determine priorities for Uniform system development and utilisation	М	Matt Leigh, Group Manager Planning Services	March 2018	This is being undertaken as part of the business process review.
	Record/analyse statistical/qualitative information to establish effectiveness of improvements made	М	Matt Leigh, Group Manager Planning Services	March 2018	Subsequent improvements implemented require further time to enable effective analysis to be undertaken.
Flooding	Introduce a CIL scheme to support flood risk mitigation in the District Ensure appropriate CIL / S106 obligations / planning conditions are included in all applicable developments Consider use of Land Trusts	М	Matt Leigh, Group Manager Planning Services	October 2017	Officers are reviewing the documentation needed to accompany a CIL. This can only be secured from new development for infrastructure, such as flood mitigation, once the CIL Charging Schedule has been approved by an Inspector at Examination. Officers negotiate the appropriate use of planning conditions and \$106 agreements for all relevant planning applications. This is expected to be in late 2018.

RECOMMENDATIONS OUTSTANDING - 2016/17 Audits

Audit	Recommendation Made	Priority Level	Manager Responsible	Original Due Date	Notes on Completion
Payment & Creditors	Instruct services on effective budgetary control Exception report non-compliance where this is not happening	М	Carrie Cox, Finance Manager	September 2017	This will be embedded by the end of the financial year.
	Identify / review spending with individual suppliers to ensure compliance with Contract Procedure Rules	М	Carrie Cox, Finance Manager	September 2017	This is being carried out by the procurement team in conjunction with a review of contracts.
Planning	Determine options for benchmarking / reporting comparative performance following adoption of the LDP	М	Matt Leigh, Group Manager Planning Services	October 2017	Due to the unique profile of the District benchmarking is difficult. Performance on applications and appeals is currently above national average.
Flooding	Provide information for Members to clarify flooding roles/responsibilities and different organisations' responsibilities Update website to provide information/to clarify matters to be reported to MDC and reporting mechanisms	М	Ian Haines, Environmental Health & Licensing Manager	October 2017	Presentation prepared and presented to November Managers Forums as requested which has delayed the provision of information to Members. Information produced and awaiting uploading to website.

RECOMMENDATIONS OUTSTANDING - 2016/17 Audits

Audit	Recommendation Made	Priority Level	Manager Responsible	Original Due Date	Notes on Completion
Flooding (contd)	Track flooding investigations reported to ECC and delivery of action plan determined by ECC Agree protocol with ECC for notifying MDC of action taken in accordance with action plans Monitor progress of actions/follow up actions not completed; assess impact on flooding risk of actions not completed	М	Ian Haines, Environmental Health & Licensing Manager	October 2017	This issue has been raised at the Executive Officers Group on a number of occasions as this will need to progress in partnership with ECC. This particular action is reliant on ECC as the flood reports are owned by them. Again this matter has been raised at the Executive Officers Group and ECC are going to assess how or whether they progress the actions recommended in the reports.
	Develop action plan to record flood risks, incidents, actions, responsibility and progress	М	Ian Haines, Environmental Health & Licensing Manager	October 2017	Action plan complete although feedback from referrals to ECC is not forthcoming. This matter is being addressed with the appropriate officers at ECC.

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Maldon District Council INTERNAL AUDIT PROGRESS REPORT March 2018





Page 15

CONTENTS

Introduction	3
Definitions of assurance	4
Progress since November 2017 Committee	5
Progress Against 2017/18 Plan	6
Appendices:	
A: Executive Summary - Main Financial Systems	8
B: Executive Summary - Budget Setting	10
C: Executive Summary - Economic Development / Business Rates growth	12
D: Executive Summary - Partnership Working	14
F: Executive Summary - Disaster Recovery and Business Continuity	16

INTRODUCTION

Internal Audit

This report is intended to inform the Audit Committee of progress made against the 2017/18 internal audit plan which was approved by this Committee in March 2017. It summarises the work we have done, together with our assessment of the systems reviewed and the recommendations we have raised. Our work complies with Public Sector Internal Audit Standards. As part of our audit approach, we have agreed terms of reference for each piece of work with the risk owner, identifying the headline and sub-risks which have been covered as part of the assignment. This approach is designed to enable us to give assurance on the risk management and internal control processes in place to mitigate the risks identified.

Internal Audit Methodology

Our methodology is based on four assurance levels in respect of our overall conclusion as to the design and operational effectiveness of controls within the system reviewed. The assurance levels are set out in section 2 of this report, and are based on us giving either "substantial", "moderate", "limited" or "no". The four assurance levels are designed to ensure that the opinion given does not gravitate to a "satisfactory" or middle band grading. Under any system we are required to make a judgement when making our overall assessment. Our definitions are set out on page 4.

Work outside of the Internal Audit Plan

We assisted with the provision of a Risk Management briefing to the Audit Committee in December 2017.

We will also be performing the Council's Annual Fraud Risk Assessment.

Audits Completed Since Last Report

See page 5 for details of the audits completed since the previous Audit Committee.

Overview of 2017/18 work to date

See pages 6 and 7 for a summary of the progress of 2017/18 planned work.

DEFINITIONS OF ASSURANCE

LEVEL OF ASSURANCE	DESIGN of internal control framework		OPERATIONAL EFFECTIVENESS of internal controls			
ASSURANCE	Findings from review	Design Opinion	Findings from review	Effectiveness Opinion		
Substantial	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.		
Moderate	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non compliance with some controls, that may put some of the system objectives at risk.		
Limited	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.		
No	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address inyear affects the quality of the organisation's overall internal control framework.	Non compliance and/or compliance with inadequate controls.		

Recommendation Significance						
High	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.					
Medium	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.					
Low	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.					

PROGRESS SINCE NOVEMBER 2017 AUDIT COMMITTEE

Area	No. of days	Manager Responsible	Assurance - System Design	Assurance - Operating Effectiveness	No. of High priority recommend ations	No. of Medium priority recommend ations	No. of Low priority recommen dations	Ref to Executive Summary
Main Financial Systems	40	Carrie Cox	Moderate	Moderate		1	2	Appendix A
Budget Setting	9	Carrie Cox	Substantial	Moderate		1		Appendix B
Economic Development / Business Rates growth	15	David Burows	Moderate	Moderate		4		Appendix C
Partnership Working	15	Julia Bawden	Moderate	Moderate		1	2	Appendix D
Disaster Recovery and Business Continuity	15	Chris Wall	Moderate	Moderate		5	1	Appendix E

PROGRESS AGAINST 2017/18 PLAN

Final report Final report Deferred	Complete Complete Deferred at the request of management Resources to be used to deliver Fraud Risk Assessment Fraud risk assessment Initiation meeting with Director of Resources booked for 17 April	Moderate Substantial	Moderate Moderate
Final report Deferred Q4	Complete Deferred at the request of management Resources to be used to deliver Fraud Risk Assessment Fraud risk assessment Initiation meeting with Director of Resources		
Deferred Q4	Deferred at the request of management Resources to be used to deliver Fraud Risk Assessment Fraud risk assessment Initiation meeting with Director of Resources	Substantial	Moderate
Q4	Resources to be used to deliver Fraud Risk Assessment Fraud risk assessment Initiation meeting with Director of Resources		
	Fraud risk assessment Initiation meeting with Director of Resources		
	booked for 17 April		
5 Final report	Complete	Moderate	Moderate
) Work in progress	Work commenced 5 March and now finished. Draft report being prepared.		
Work in progress	Work commenced 5 March and now finished. Draft report being prepared.		
5 Final report	Complete	Moderate	Moderate
5 Final report	Complete	Moderate	Moderate
Work in progress	Work commenced 26 February, but encountering delays in the provision of information.		
) Final report	Complete To be followed up in April 2018	N/A	N/A
3	Work in progress Work in progress Final report Final report Work in progress	Work in progress Work commenced 5 March and now finished. Draft report being prepared. Work in progress Work commenced 5 March and now finished. Draft report being prepared. Final report Complete Work in progress Work commenced 26 February, but encountering delays in the provision of information. Final report Complete To be followed up in April 2018	Work in progress Work commenced 5 March and now finished. Draft report being prepared. Work in progress Work commenced 5 March and now finished. Draft report being prepared. Final report Complete Moderate Work in progress Work commenced 26 February, but encountering delays in the provision of information. Final report Complete N/A To be followed up in April 2018

PROGRESS AGAINST 2017/18 PLAN

Area	2015/16 days	Date work to be undertaken	Progress Update	Assurance - System Design	Assurance - Operating Effectiveness
IT Audit					
Disaster Recovery and Business Continuity	15	Final report	Complete	Moderate	Moderate
	15				

Planning, Reporting, Follow-up and Contingency						
Planning / liaison / management	20	Ongoing				
Recommendation follow up	10	For reporting in	Reported in September 2017			
		September 2017 and	Being reported in March 2018			
		March 2018				
Contingency	5	Utilised	Risk Management briefing to the Audit Committee December 2017			
Total	35	_				
Total	33					

APPENDIX A - Main Financial Systems

CLIENT ST	CLIENT STRATEGIC GOAL				F RECOMMENDATIONS (SEE APPENDIX II FOR DEFINITIONS)
Risk	Delivering g	good qu	uality, cost effective and valued services	High	
LEVEL OF ASSURANCE (SEE APPENDIX II FOR DEFINITIONS)				Medium	1
Design	Mode	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with		Low	2
			some that are not fully effective.	Total numbe	er of recommendations: 3
Effective	eness Mode	erate	A small number of exceptions found in testing of the procedures and controls.		

OVERVIEW

Background

The purpose of our review was to provide assurance that appropriate arrangements are in place and operating effectively in relation to the main financial systems of Maldon District Council. Local Authorities are facing financial strain and reduced grant funding, therefore proper and effective financial system controls are critical to support effective financial planning and management. Detailed independent testing on the financial statements is also performed by external auditors in accordance with the NAO Code of Audit Practice. Internal audit processes seek to minimise duplication between the different audit roles.

The Council is required to ensure there are sufficient and effective controls over the key financial systems to prevent any erroneous or intentional misappropriation of resources. As the main financial systems are subject to cyclical reviews an audit was also undertaken in 2016/17, therefore we also assessed the progress with implementation of the 2016/17 audit recommendations.

The 2017/18 audit comprised of a review of four key areas of the Council's operations: general ledger, creditors, budgetary control and council tax & non domestic rates. The Council has a well organised finance department which exercises control over the financial systems and facilitates correct practice across the different departments, with each department aligned to a specific accountant. It should be noted that essential to each area of the review was confirmation that there are appropriate access controls to the Council's SAGE system, which was assessed and deemed to be satisfactory, only allowing user access to members of the finance team.

Alongside the process controls testing we also performed data analytics to provide further assurance to the Council that the main financial systems are effective, specifically with reference to creditor payments. Creditor data was analysed and compared to Benford's law (which helps predict frequency distribution of numbers) and the results aligned with the expected count to a degree of acceptable conformity.

APPENDIX A - Main Financial Systems

OVERVIEW

Good practice:

Across the review a number of good practice points were identified within the Council. These points demonstrate the commitment to strong internal controls and have helped inform the final audit opinion. Specifically:

- Each department within the Council has a specific accountant allocated to it, with regular meetings between them ensuring correct financial practice is operated across the Council
- Communication across the Council is good, with multiple pathways within the Council supporting this, both in person through regular meetings or making use of appropriate technology, such as the capital project budget tracker
- A wide variety of reconciliations are performed between the feeder systems and the general ledger. These are performed regularly, with regularity dictated by the importance of the system, demonstrating appropriate targeting of resources being made by the Council to ensure accuracy is maintained to the best possible degree.

Areas of improvement:

However, certain areas of improvement have been identified, and are highlighted in more detail in this report. In summary these are:

- The system access controller has the opportunity to amend their own access controls, with no additional confirmation required (Finding 1)
- There is no formal timetable for the review and clearing of the suspense account (Finding 2)
- Journals are not subject to sufficient scrutiny by delegated personnel, with inadequate signatory authorisation provided for 3 of 20 journals tested (Finding 3).

Conclusion:

In conclusion it is evident from our audit work that there is a sound system of internal controls relating to the main financial systems of the Council, with a number of good practice points being identified across the different areas audited. However, a number of areas of improvement have been identified, with two medium and two low level findings being raised. Consequently, this report concludes that moderate assurance can be given over both the design and effectiveness of the internal controls in place. The Council should look to implement the recommendations suggested within this report, as well as continue building upon the good practice areas in order to improve the level of control underpinning the financial operations and strive for substantial assurance in the near future.

APPENDIX B - Budget Setting

CLIENT S	TRATEGIC GOAL		SUMMARY OF RECOMMENDATIONS (SEE APPENDIX II FOR DEFINITIONS)		
Risk	Delivering good	quality, cost effective and valued services	High		
LEVEL OF	F ASSURANCE (SE	APPENDIX II FOR DEFINITIONS)	Medium 1		
Design	Substant	There is a sound system of internal control designed to achieve system objectives.	Low		
Effective	eness Moderat	A small number of exceptions found in testing of the procedures and controls.	Total number of recommendations: 1		

OVERVIEW

Background

This is a high level review of assumptions and risks used in the development of the Medium Term Financial Strategy and Annual Budget.

A report to the Council's Finance & Corporate Services Committee in September 2017 advised Members that a review of the Council's Medium Term Financial Strategy had identified that an estimated £98,000 of savings would be required to close the budget gap in 2018/19, with further savings of £282,000 and £596,000 being required in the subsequent two years respectively. Officers reviewed options to reduce the gap and performed a detailed budget scrutiny using the 2016/17 outturn. Officers proposed that there be no budget growth for 2018/19 and to use a zero based budgeting approach from 2018/19.

The Budget setting process for 2018/19 included assessment of the estimated Collection Fund surplus, tax base, investment income, commitment to payment of the living wage and 2% salary uplift, Council Tax increase and the local referendum threshold, and inflation, using a zero based budget approach with the aim of zero budget growth. As a result the Council set the 2018/19 net operating budget at £7.95m which is 9.5% lower than the 2017/18 net operating budget, although this was mainly due to a reduction in the funding of the pension deficit. The Medium Term Financial Strategy is based on appropriate assumptions, and this identified the need to deliver £1.49m of savings, in addition to the planned use of £0.29m, of reserves over the next four years. The Council has a track record of underspending against the budget set and delivering the savings required by the Medium Term Financial Strategy.

Precise calculations are not available for determining future income and expenditure requirements, however estimates supporting the budget setting process are made on the basis of knowledge and professional judgement and are supported by evidence of the use of the best available data, supporting calculations and records of the risks and assumptions underlying decisions.

Out of the 121 cost centres, we selected 12 cost centres and reviewed their 2018/19 budget setting process and the outturn for 2015/16 and 2016/17.

APPENDIX B - Budget Setting

OVERVIEW

Good practice:

Across the review a number of good practice points were identified. These demonstrate the commitment to strong internal controls and have helped inform the final audit opinion. Specifically:

- Budget for each cost centre has been signed off by the budget holder, demonstrating ownership and accountability
- Wider stakeholder involvement within the Budget setting process such as the Car Parking Charges Review Task and Finish Working Group and presentation for the local Chamber of Commerce
- Budgets are reviewed by the Corporate Leadership Team and growth bids (areas with specific need to increase expenditure) are reviewed and justified by the management prior to submission to Council for approval.

Area of improvement:

One area of improvement has been identified, and is highlighted in more detail in this report. In summary this is:

• We have identified a roll forward figure that has been used in setting the budget for a specific cost centre, despite positive variances occurring in both 2015/16 and 2016/17 financial years. (Finding 1).

Conclusion:

In conclusion it is evident from our audit work that there is a sound system of internal controls relating to the production of the annual budget and medium term financial strategy, with a number of good practice points being identified. However, one area of improvement has been identified, with one medium level finding being raised. Consequently, this report concludes that substantial assurance can be given to the design and moderate assurance to the effectiveness of the internal controls in place.

APPENDIX C - Economic Development / Business Rate growth

MALDON DISTRICT	COUNCIL GO	AL	SUMMARY OF RECOMMENDATIONS (SEE APPENDIX II FOR DEFINITIONS)		
Delivering good qua	ality, cost effec	ctive and valued services	High		
LEVEL OF ASSURA	NCE (SEE APP	ENDIX II FOR DEFINITIONS)	Medium 4		
Design	Moderate	Generally sound system of internal controls, but with some exceptions	Low		
Effectiveness	Moderate	Evidence of non compliance in some controls, that may put some system objectives at risk	Total number of recommendations: 4		

OVERVIEW

Background

The Council recently participated in a LGA Peer Review of its Economic Development offer. This review highlighted the Council: had a good understanding of its strengths and weaknesses and the work needed to improve the local economy, was working with partners and other authorities towards delivery and had strong support from the political leadership for economic development. This audit considered engagement with partners, promotion of the District Offer through the website, assessment of skills deficits, funding opportunities, and the impact of Brexit on economic development within the District.

From our review, we noted the following areas of good practice:

- The Council has clarified the key partners it engages with to promote Economic Development within the District and has identified actions to enhance promotion of the District's offer
- The Council works with local businesses to identify projects for funding and supports a Chamber of Commerce within Burnham on Crouch (a similar model is expected to be developed for Maldon)
- A transformation project has been created to ensure appropriate focus on economic development within the District

However, we also noted the following areas of improvement:

- There is scope to enhance the promotion of the Business Essex, Southend and Thurrock (BEST) Growth Hub via the Council's website (Finding 1 medium)
- There is scope to enhance the promotion of Invest Essex via the Council's website, to engage with Invest Essex to develop their property search facility and to ensure the site is kept up to date with development opportunities within the District. The Council should also clarify the District's Offer to ensure this is effectively promoted to potential business investors (Finding 2 Medium)
- There is scope to improve the links to funding advice and opportunities on the Council's website and enhance promotion of the District (Finding 3 Medium)
- The Council should conduct Brexit Impact Scenario Planning to assess the anticipated impact of Brexit on economic growth in the District (Finding 4 Medium)

APPENDIX C - Economic Development / Business Rate growth

OVERVIEW

Conclusion

We have raised 4 Medium priority findings and have issued an opinion of moderate for both the design and effectiveness of the Economic Development and Business Rates Growth systems, reflecting that there are areas of good practice, but that there are also areas of improvement to be developed relating to the promotion of the District offer and opportunities, including via partner sites and the need for scenario planning to determine the anticipated impact of Brexit on economic growth within the District.

APPENDIX D - Partnership Working

CLIENT STRATEGIC GOALS SUMMARY OF RECOMMENDATIONS (SEE APPENDIX II FOR DEFINITIONS) Delivering good quality, cost effective and valued services - the Goal Council will work with partners to support achievement of Council High goals. LEVEL OF ASSURANCE (SEE APPENDIX II FOR DEFINITIONS) Medium Generally a sound system of internal control designed to achieve system objectives with some Design Moderate Low exceptions. Total number of recommendations: 3 Evidence of non compliance with some controls. that may put some of the system objectives at Effectiveness Moderate risk.

OVERVIEW

Background

Partnerships are viewed as a key part of the approach to working between local authorities, as they can bring various benefits. Councils can work in patrnership to achieve shared objectives and share resources. This can reduce costs and sometimes attract additional funding as an incentive. Risk to individual councils may also be reduced when shared within a partnership. Partnersips can vary ranging from a statutory requirement involving contractual obligations between councils and other authorities, or they can be entered into on a voluntary basis to deliver mutual benefit. The purpose of partnerships can also vary ranging from information sharing to more rigid requirements of meeting specified Key Performance Indicators (KPIs).

The purpose of our review was to assess the adequacy and effectiveness of the Council's arrangements for the management of Partnerships.

Scope and Approach

We reviewed the Council's guidance document 'Managing Partnerships Effectively Toolkit' and interviewed the Performance and Risk Officer to establish the controls in place governing partnerships within the Council. We also selected a sample of three partnerships from the Council's Significant Partnership Register and tested these against the Council's guidance document by conducting interviews with the identified Lead Officers for each partnership within the sample.

Good Practice

- The Council has a comprehensive framework in place which provides guidance around the assessment and monitoring of partnerships, including detailed assessment requriements and a risk assessment proforma
- The Council has identified its 'significant' partnerships and has set criteria for establishing which partnerships are deemed to be significant
- There is a system in place to ensure that Lead Officers review their partnerships on an annual basis.

APPENDIX D - Partnership Working

OVERVIEW (cont)

Key Findings

- The Council's guidance document 'Managing Partnerships Effectively Toolkit' does not include partnership approval processes, and for two of the three partnerships we reviewed there was no evidence of formal approval or committee oversight of joining the partnerships (Finding 1 medium)
- Overall review of Significant Partnerships with committee overview is not carried out consistently on a regular basis (Finding 2 Low)
- There was a lack of evidence to support reporting back to the relevant committee for one of the three partnerships we reviewed (Finding 3 Low).

Conclusion

During our review we have raised one medium and two low priority recommendations. The Council currently has a sound system of internal control in place to govern Partnership arrangements and monitor progress, which includes an appropriate guidance framework and risk assessment procedures. However, we identified some weaknesses in the operational effectiveness of some of the existing controls in relation to insufficient information regarding approval when entering into new partnerships and a lack of evidence of overview of partnership objectives being met.

APPENDIX E - Disaster Recovery and Business Continuity

COUNCIL ST	RATEGIC RISKS		SUMMARY OF RECOMMENDATIONS (SEE APPENDIX II FOR DEFINITIONS)
K1SK	nability to main business continuit	tain key services in exceptional circumstances y)	High
LEVEL OF A	SSURANCE (SEE	APPENDIX II FOR DEFINITIONS)	Medium 5
Design	Moderate	A sound system of internal control designed to achieve system objectives with some exceptions.	Low 1
Effectivenes	Evidence of non compliance with some controls, that may put some of the system objectives at risk.		Total number of recommendations: 6

OVERVIEW

The purpose of this review is to assess the actions that have been taken by the Council in order to address the issues raised in the previous Business Continuity and Disaster Recovery audit as well as highlighting any further areas for improvement. Operational management of the Council's emergency planning and business continuity arrangements has been outsourced to Chelmsford City Council, with the intention being to mirror the arrangements between both organisations. As part of the contract, Chelmsford City Council provides the Council with a Community Support Officer - Community Resilience, who is responsible for the design and implementation of the business continuity management process.

Areas of good practice identified were:

- · The Council has a defined Business Continuity policy
- The Council has risk assessed all the business services and defined the criticality of the services
- The Council has performed testing of the individual business continuity plans for all its services.

We have identified the following areas for improvement:

- The Council has not defined the recovery point objectives for the critical services, nor are the recovery objectives aligned within the Business Continuity Plan and Disaster Recovery Plan (Medium Finding 1)
- The IT Disaster Recovery plan requires further development, including further detail on recovery procedures and when the plan will be invoked (Medium Finding 2)
- The Corporate Business Continuity Plan requires further development, including having clear responsibilities for business continuity and relevant contact details (Medium Finding 3)
- The Business continuity and disaster recovery plans have not been tested (Medium Finding 4)
- The Council's key officers are not provided with appropriate disaster recovery training (Medium Finding 5).

The gaps in the Council's business continuity management and planning could significantly affect the Council's ability to recover and continue to offer its critical services in the event of an incident. The Council has not taken appropriate action to set out its expectations for continuity planning with Chelmsford City Council, or engage with service owners to implement effective continuity planning. Consequently, we conclude moderate assurance over both the design and operating effectiveness of the controls operating in relation to the Council's Business Continuity and Disaster Recovery management.

The proposal contained in this document is made by BDO LLP ("BDO") and is in all respects subject to the negotiation, agreement and signing of a specific contract. It contains information that is commercially sensitive to BDO, which is being disclosed to you in confidence and is not to be disclosed to any third party without the written consent of BDO. Client names and statistics quoted in this proposal include clients of BDO and BDO International.

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Maldon District Council

Draft Internal Audit Plan
Indicative Strategic Plan 2018-21
Draft Audit Charter

February 2018



FOR AUDIT COMMITTEE MEETING 26/3/18



CONTENTS

Internal audit approach	3
Audit risk assessment	4
Proposed resources and outputs	5
Indicative Internal Audit Strategic Plan 2018-21	6
Appendix 1 - Internal Audit charter	10

Restrictions of use

The matters raised in this report are only those which came to our attention during the course of our audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. The report has been prepared solely for the management of the organisation and should not be quoted in whole or in part without our prior written consent. BDO LLP neither owes nor accepts any duty to any third party whether in contract or in tort and shall not be liable, in respect of any loss, damage or expense which is caused by their reliance on this report.

INTERNAL AUDIT APPROACH

Introduction

Our role as internal auditors is to provide independent, objective assurance designed to add value and improve your performance. Our approach, as set out in the Firm's Internal Audit Manual, is to help you accomplish your objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Our approach complies with best professional practice, in particular, CIPFA Internal Audit Standards and Public Sector Internal Audit Standards.

Internal Audit at Maldon District Council

We have been appointed as internal auditors to Maldon District Council (the 'Council') to provide the s151 officer and the Audit Committee with assurance on the adequacy of internal control arrangements, including risk management and governance.

Responsibility for these arrangements remains fully with management, who should recognise that internal audit can only provide 'reasonable assurance' and cannot provide any guarantee against material errors, loss or fraud. Our role at the Council will also be aimed at helping management to improve risk management, governance and internal control, so reducing the effects of any significant risks facing the organisation.

In producing the internal audit strategic plan for 2018-21 we have sought to further clarify our initial understanding of the business of the Council, together with its risk profile in the context of:

- The overall business strategy and objectives of the Council
- The key areas where management wish to monitor performance and the manner in which performance is measured
- The financial and non-financial measurements and indicators of such performance
- The information required to 'run the business'
- The key challenges facing the Council.

AUDIT RISK ASSESSMENT

Background

Our risk based approach to Internal Audit uses the Council's own risk management process and risk register as a starting point for audit planning as this represents the Council's own assessment of the risks to it achieving its strategic objectives.

The extent to which we can rely on management's own perception of risk largely depends on the maturity and effectiveness of the Council's own risk management arrangements. In estimating the amount of audit resource required to address the most significant risks, we have also sought to confirm that senior management's own assessment of risk accurately reflects the Council's current risk profile.

Individual audits

When we scope each review, we will reconsider our estimate for the number of days needed to achieve the objectives established for the work and to complete it to a satisfactory standard in light of the control environment identified within the Council. Where revisions are required we will obtain approval from the s151 Officer prior to commencing fieldwork and we will report this to the Audit Committee.

In determining the timing of our individual audits we will seek to agree a date which is convenient to the Council and which ensures availability of key management and staff.

Variations to the Plan

Significant variations to the plan arising from our reviews, changes to the Council's risk profile or due to management requests will be discussed in the first instance with the s151 officer and approved by the Audit Committee before any variation is confirmed.

Planned approach to creating internal audit operational plan for 2018-19

The indicative Internal Audit programme for 2018-19 is shown from page 6 onwards. As outlined in the table below, we are in the process of developing the plan (items shown in red have yet to take place at the point of drafting this paper). Once we have fully completed our consultations and risk assessment we will bring a finalised plan to the Audit Committee on 26 March for approval. We will then keep the plan under continuous review during the year and will introduce to the plan any significant areas of risk identified by management or the Audit Committee during that period.



•Circulate the finalised draft plan for final comment and then present to 26 March 2018 Audit Committee for approval

PROPOSED RESOURCES AND OUTPUTS

Staffing

The core team that will be delivering the programme to you is shown below:

Name	Grade	Telephone	Email
Greg Rubins	Partner	07710 703 441	Greg.Rubins@bdo.co.uk
Andrew Barnes	Senior Audit Manager	07912 040 848	Andrew.Barnes@bdo.co.uk
Emma Etherington	Auditor	07583 180999	Emma.Etherington@bdo.co.uk

The core team will be supported by specialists from our national Risk and Advisory Services Team and wider firm as and when required.

Our indicative staff mix to deliver the programme for 2018-19 is shown below:

Grade	Annual days	Grade Mix (%)
Partner	23	10%
Audit Manager	46	20%
Audit Senior	69	30%
Auditors (including Qualified) & Specialist Staff	92	40%
Total	230	100%

Reporting to the Audit Committee

We will submit the Internal Audit Plan for final approval by the Audit Committee to the meeting on 26 March 2018.

We will liaise with the Executive Directors and other senior officers as appropriate to ensure that internal audit reports summarising the results of our visits are presented to the appropriate Audit Committee meeting.

Following completion of the Internal Audit programme each year we will produce an Internal Audit Annual Report summarising our key findings and evaluating our performance in accordance with agreed service requirements.

We have detailed below our indicative strategic audit plan, this covers the areas that we think will be important to you over the duration of the period.

Area	2018/19	2019/20	2020/21	Description of the Review
Core audits				
Main Financial Systems	40	40	40	Detailed review to include GL controls, system interfaces, journals, as well as cyclical audits of debtors, creditors, payroll, budgetary control, treasury management, council tax and NNDR.
Risk Management and Governance Arrangements		15		Review the process in place for risk management, including risk appetite, identification, controls, scoring and mitigation.
Customer service			15	Review of areas such as effectiveness of customer service centre, customer feedback and complaints and telephony.
Transformation programme	15			Building on our review of IT Transformation and the LGA Peer Review undertaken in February 2017, we will review the processes and arrangements in place to ensure corporate transformation objectives are achieved.
Budgets and Performance Management	15			Review of the performance management processes such as the strength of business planning, use of data, governance and follow up of services not meeting targets.
Budget Setting (High level review) (reviewed in 2017/18)				Review of the assumptions used and risk considerations in developing the budget and medium term financial strategy.
Corporate Plan and Priorities		20		Review of the Council's Corporate Plan, including consultation input, development and ownership.
Communications Strategy			20	Review of the development of and implementation of the Communications Strategy.
Policy Review			15	Review of the Council's policies to ensure they are transparent, robust, consistent, up to date and that there is a plan in place for reviewing and refreshing them.
Knowledge Management		15		Review of the Council's approach to knowledge management and how it is stored and shared.
Capital project management	20			Review of significant capital projects, to include the planning, funding, delivery and the approach to project management to ensure there is sufficient due diligence and that projects are delivered in line with expectations.
Counter fraud	10	10	10	Fraud risk management assessment and preventative measures, including training, presentations and advice on fraud.
Total	100	100	100	

Area	2018/19	2019/20	2020/21	Description of the Review
Other Key Areas				
Economic Development / Business Rates Growth (reviewed in 2017/18)				Building on the LGA Peer Review undertaken in February 2017 we will review the Council's policies and approach to encourage economic development and inward investment and the links between economic development and housing growth.
Management of Property		15		Review of the arrangements in place for ensuring property is managed effectively and efficiently.
Building Control	15			Review of the effectiveness of the Council's approach to and delivery of change to the Building Control service.
Housing Needs and Affordable Housing		15		Review of how effectively the Council is managing its strategy around provision of social housing and developing the private rented sector.
Workforce Management (reviewed in 2016/17)				Review of the progress of the Workforce Development Strategy and the internal processes for HR, including workforce planning, recruitment, appraisals and training.
Attendance Management (reviewed in 2017/18)				Review of the implementation and effectiveness of the new Absence Management policy and procedures.
Local Development Plan	15			Review of the implementation of the Local Development Plan and consistency with other Council strategic needs assessments .
Planning Services (reviewed in 2016/17)				Review of the Planning Services performance monitoring and managements, embedding of improvements and effectiveness in meeting its objectives.
Business Resilience (reviewed in 2017/18)				Review of the Council's reliance on key officers and appropriateness of procedure notes and substitute officer cover.
Shared Services			15	Review of the Council's consideration of services and activities potentially suitable to be delivered in shared service arrangements.
Safeguarding			15	Review of the Council's policies and arrangements to ensure the safeguarding of children and vulnerable adults.
Inventory and Stock (reviewed in 2016/17)				Review of the Council's inventory and stock procedures, particularly within the Tourist Information Centre.
Total	30	30	30	

Area	2018/19	2019/20	2020/21	Description of the Review
Other Key Areas				
Safe and clean environment	20			Reviews of the Council's waste management contract, collection and recycling arrangements, carbon footprint and activities to providing a safe and clean environment.
Contract Procurement, Management and Purchasing (reviewed in 2017/18)				Review of the Council's processes in place for contract procurement and management to ensure it is compliant with regulations, robust and transparent. To include further drilling down to review of the Council's use of purchasing cards, implementation of 'No purchase order, no pay' and the utilisation of teams to provide internal and external services.
Flooding (reviewed in 2016/17)			20	Review of the Council's relationships with the Lead Local Flood Authority and other organisations to manage respective responsibilities over the risk of surface water flooding.
Channel shift and Customer Strategy (reviewed in 2016/17)		20		Review of the arrangements and controls in place in these two areas, including use of technology and new ways of working.
Partnership working (reviewed in 2017/18)				Review of the Council's understanding of the partnerships that it is involved in and the inputs provided to them compared to the outputs achieved and the contribution towards Corporate Objectives.
Elections improvement plan (High level review) (reviewed in 2017/18)				Building on the Overview and Scrutiny Review of the elections service, we will undertake a high level review of the Council's delivery of the elections improvement plan and resilience to provide an appropriate service, after the County Council elections in May 2017.
Strengthening Communities Strategy and Localism	15			Review of the approach to the creation of the strategy and the progress with internal communication, understanding, implementation and achievement of outcomes, including the effectiveness of the Council's approach to localism issues such as CT benefits, local budgets, planning and social enterprise.
Income generation (reviewed in 2016/17)		15		Review of the potential opportunities for the Council to generate additional income from new and current services.
Information Management (reviewed in 2017/18)			15	Review of the Council's arrangements for managing and utilising information to ensure that this is optimised.
Committee Structure (reviewed in 2016/17)				Review of the Committee Structure to ensure that it is fit for purpose and delivering the outcomes required by the District.
Total	35	35	35	

Area	2018/19	2019/20	2020/21	Description of the Review
IT Audit				
Disaster recovery and business continuity (reviewed in 2017/18)				Review of disaster recovery and business continuity plans in place, to ensure they are comprehensive, tested and effective.
IT Transformation	15			Review of arrangements in place for the delivery of the Council's IT Strategy Projects and the links to the overall transformation programme for the Council.
IT Strategy and Governance		15		Review of the Council's implementation of the IT Strategy, including benchmarking of efficiency.
Implementation of Office 365	15			Review of the Council's implementation of Office 365, including delivery of benefits realisation.
Information Management and Payment Card Industry Data Security Standards (reviewed in 2016/17)			15	Review to include information governance, customer data security and adherence to PCI compliance rules.
Cyber Crime (reviewed in 2016/17)			15	Review of the Council's key IT assets and whether they are suitably protected and whether cyber security risks are appropriately managed on an ongoing basis.
Network security		15		Review of the Council's network security arrangements.
Total	30	30	30	

Audit Management				
Follow Up Work	10	10	10	Rolling programme of follow up, including testing of high and medium risk recommendations.
Audit Management	20	20	20	
Contingency	5	5	5	
Total	35	35	35	
Grand Total	230	230	230	

Internal Audit Charter - Role and Scope of Internal Audit

Purpose of this charter

This charter is a requirement of Public Sector Internal Audit Standards (PSIAS).

The charter formally defines internal audit's mission, purpose, authority and responsibility. It establishes internal audit's position within Maldon District Council, and defines the scope of internal audit activities.

Final approval resides with the Board, in practice the charter shall be reviewed and approved annually by management and by the Audit Committee on behalf of Maldon District Council.

Internal audit's mission

Internal audit's mission is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Standards of internal audit practice

To fulfil it's mission, internal audit will perform its work in accordance with PSIAS, which encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF): Definition of Internal Auditing, Code of Ethics, and International Standards for the Professional Practice of Internal Auditing.

Internal audit definition and role

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

Internal audit acts primarily to provide the Audit Committee with information necessary for it to fulfil its own responsibilities and duties. Implicit in internal audit's role is that it supports management to fulfil its own risk, control and compliance responsibilities. The range of work performed by internal audit is set out in PSIAS and not repeated here.

Internal audit's scope

The scope of internal audit activities includes all activities conducted by Maldon District Council. The Internal Audit Plan sets out those activities that have been identified as the subject of specific internal audit engagements.

The provision of assurance services is the primary role for internal audit in the UK public sector. This role requires the chief audit executive to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control.

Assurance engagements involve the objective assessment of evidence to provide an independent opinion or conclusions regarding an entity, operation, function, process, system or other subject matter. The nature and scope of the assurance engagement are determined by internal audit.

Consulting engagements are advisory in nature and are generally performed at the specific request of management, with the aim of improving governance, risk management and control and contributing to the overall opinion. The nature and scope of consulting engagement are subject to agreement with management. When performing consulting services, internal audit should maintain objectivity and not assume management responsibility.

Effective internal audit

Our internal audit function is effective when:

- It achieves the purpose and responsibility included in the internal audit charter
- It conforms with the Standards
- Its individual members conform with the Code of Ethics and the Standards
- It considers trends and emerging issues that could impact the organisation.

The internal audit activity adds value to Maldon District Council (and its stakeholders) when it considers strategies, objectives and risks, strives to offer ways to enhance governance, risk management and control processes and objectively provides relevant assurance.

Internal Audit Charter - Independence and objectivity

Independence and internal audit's position within Maldon District Council

To provide for internal audit's independence, its personnel and external partners report to the Head of Internal Audit, who reports functionally to the Audit Committee. The Head of Internal Audit has free and full access to the Chair of the Audit Committee. The Head of Internal Audit reports administratively to the Director of Finance who provides day-to-day oversight.

The appointment or removal of the Head of Internal Audit will be performed in accordance with established procedures and subject to the approval of the Chair of the Audit Committee.

The internal audit service will have an impartial, unbiased attitude and will avoid conflicts of interest. The internal audit service is not ordinarily authorised to perform any operational duties for Maldon District Council.

In the event that internal audit undertakes non-audit activities, safeguards will be agreed to ensure that independence or objectivity of the internal audit activity are not impaired. This might include a separate partner review of the work or a different team undertaking the work. Approval of the arrangements for such engagements will be sought from the Audit Committee prior to commencement.

In the event that internal audit provides assurance services where it had previously performed consulting services, an assessment will be undertaken to confirm that the nature of the consulting activity did not impair objectivity and safeguards will be put in place to manage individual objectivity when assigning resources to the engagement. Such safeguards will be communicated to the Audit Committee.

Internal audit must be free from interference in determining the scope of internal auditing, performing work and communicating results. Should any interference take place, internal audit will disclose this to the Audit Committee to discuss the implications.

Internal audit's role in fraud, bribery and corruption

Management, not internal auditors are responsible for the prevention and detection of fraud, bribery and corruption. Auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption as well as seeking to identify indications that fraud and corruption may have been occurring. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud and corruption will be detected. In the event that internal audit suspect a fraud, this will be referred to appropriate management in the first instance and then the audit committee.

Access to records and confidentiality

There are no limitations to internal audit's right of access to Maldon District Council officers, records, information, premises, or meetings which it considers necessary to fulfil its responsibilities.

When the auditors receive confidential information about your affairs it shall at all times be kept confidential, except as required by law or as provided for in regulatory, ethical or other professional pronouncements applicable. All information will be maintained in line with appropriate regulations, for example the Data Protection Act 1998.

Coordination and reliance with other assurance providers

In co-ordinating activities internal audit may rely on the work of other assurance and consulting service providers.

A consistent approach is adopted for the basis of reliance and internal audit will consider the competency, objectivity, and due professional care of the assurance and consulting service providers. Due regard will be given to understanding of the scope, objectives and results of the work performed by other providers of assurance and consulting services.

Where reliance is placed upon the work of others, internal audit is still accountable and responsible for ensuring adequate support for conclusions and opinions reached by the internal audit activity.

Internal Audit Charter - Internal Audit Commitments

Internal audit's commitments to Maldon District Council

Internal audit commits to the following:

- working with management to improve risk management, controls and governance within the organisation
- performing work in accordance with PSIAS
- complying with the ethical requirements of PSIAS
- dealing in a professional manner with Maldon District Council staff, recognising their other commitments and pressures
- raising issues as they are identified, so there are no surprises and providing practical recommendations
- liaising with external audit and other regulators to maximise the assurance provided to Maldon District Council
- reporting honestly on performance against targets to the Audit Committee.

Internal audit performance measures and indicators

The tables on the right contain some of the performance measures and indicators that are considered to have the most value in assessing the efficiency and effectiveness of internal audit.

The Audit Committee should approve the measures which will be reported to each meeting and / or annually as appropriate. In addition to those listed here we also report on additional measures as agreed with management and included in our Progress Report.

Quality assurance and improvement programme

As required by PSIAS an external assessment of the service will be performed at least every five years. BDO also has an internal quality assurance review process in place, which takes place annually. This is performed by a separate team independent to the internal audit team.

The results of internal and external assessments will be communicated to the Audit Committee as part of the internal audit annual report, along with corrective action plans.

Table One: Performance measures for internal audit

Measure / Indicator

Audit Coverage

Annual Audit Plan delivered in line with timetable

Actual days are in accordance with Annual Audit Plan

Relationships and customer satisfaction

Customer satisfaction reports - overall score at least 70% for surveys issued at the end of audits

Annual survey to Audit Committee to achieve score of at least 70%

Staffing and Training

At least 60% input from qualified staff

Audit Reporting

Issuance of draft report within 3 weeks of fieldwork 'closing' meeting

Finalise internal audit report 1 week after management responses to report are received

Audit Quality

Positive result from any external review

Internal Audit Charter - Management & Staff Commitments

Management and staff commitments to Internal Audit

The management and staff of Maldon District Council commit to the following:

- providing unrestricted access to all of Maldon District Council records, property, and personnel relevant to the performance of engagements
- responding to internal audit requests and reports within the agreed timeframe and in a professional manner
- implementing agreed recommendations within the agreed timeframe
- being open to internal audit about risks and issues within the organisation
- not requesting any service from internal audit that would impair its independence or objectivity
- providing honest and constructive feedback on the performance of internal audit

Management and staff performance measures and indicators

The following three indicators are considered good practice performance measures but we go beyond this and report on a suite of measures as included in each Audit Committee progress report.

Table Two: Performance measures for management and staff

Measure / Indicator

Response to Reports

Audit sponsor to respond to terms of reference within one week of receipt and to draft reports within two weeks of receipt

Implementation of recommendations

Audit sponsor to implement all audit recommendations within the agreed timeframe

Co-operation with internal audit

Internal audit to confirm to each meeting of the Audit Committee whether appropriate co-operation has been provided by management and staff

BDO contacts

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Andrew Barnes	Senior Manager	07912 040 848	Andrew.Barnes@bdo.co.uk

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