



Essex County Council

# **Audit, Governance and Standards Committee**

<b>10:00</b>	<b>Monday, 17 September 2018</b>	<b>Committee Room 1, County Hall, Chelmsford, CM1 1QH</b>
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**For information about the meeting please ask for:**

Andy Gribben, Senior Democratic Services Officer

**Telephone:** 033301 34565

**Email:** [andy.gribben@essex.gov.uk](mailto:andy.gribben@essex.gov.uk)

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|----------|---|----------------|
| <b>6</b> | <b>Work Programme</b><br>To receive and update the AGS Work Programme (AGS/23/18) from Paul Turner, Director, Legal and Assurance   | <b>70 - 72</b> |
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### **Exempt Items**

(During consideration of these items the meeting is not likely to be open to the press and public)

To consider whether the press and public should be excluded from the meeting during consideration of an agenda item on the grounds that it involves the likely disclosure of exempt information as specified in Part I of Schedule 12A of the Local Government Act 1972 or it being confidential for the purposes of Section 100A(2) of that Act.

In each case, Members are asked to decide whether, in all the circumstances, the public interest in maintaining the exemption (and discussing the matter in private) outweighs the public interest in disclosing the information.

## **Essex County Council and Committees Information**

All Council and Committee Meetings are held in public unless the business is exempt in accordance with the requirements of the Local Government Act 1972. If there is exempted business, it will be clearly marked as an Exempt Item on the agenda and members of the public and any representatives of the media will be asked to leave the meeting room for that item.

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Induction loop facilities are available in most Meeting Rooms. Specialist headsets are available from Reception.

With sufficient notice, documents can be made available in alternative formats, for further information about this or about the meeting in general please contact the named officer on the agenda pack or email [democratic.services@essex.gov.uk](mailto:democratic.services@essex.gov.uk)

### **Audio recording of meetings**

Please note that in the interests of improving access to the Council's meetings, a sound recording is made of the public parts of many of the Council's Committees. The Chairman will make an announcement at the start of the meeting if it is being recorded.

If you are unable to attend and wish to see if the recording is available you can visit this link <https://cmis.essexcc.gov.uk/Essexcmis5/CalendarofMeetings> any time after the meeting starts. Any audio available can be accessed via the 'On air now!' box in the centre of the page, or the links immediately below it.

Should you wish to record the meeting, please contact the officer shown on the agenda front page

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**Committee:** Audit, Governance and Standards Committee

**Enquiries to:** Andy Gribben, Senior Democratic Services Officer

**Membership, Apologies, Substitutions and Declarations of Interest**

**Recommendations:**

To note

1. The membership of the committee (as shown below)
2. Apologies and substitutions
3. Declarations of interest to be made by Members in accordance with the Members' Code of Conduct

**Membership**

(Quorum: 3)

Councillor T Cutmore	Chairman
Councillor P Channer	
Councillor A Davies	
Councillor A Erskine	
Councillor T Hedley	Vice-Chairman
Councillor R Mitchell	
Councillor R Moore	
Councillor M Platt	
Councillor K Smith	
Councillor A Turrell	

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**Minutes of the meeting of the Audit, Governance and Standards Committee, held in Committee Room 1 County Hall, Chelmsford, CM1 1QH on Monday, 30 July 2018****Present:****Members:**

Councillor T Cutmore	Chairman
Councillor A Davies	
Councillor A Erskine	
Councillor A Hedley	Vice-Chairman
Councillor R Mitchell	
Councillor Dr R Moore	
Councillor M Platt	
Councillor K Smith	
Councillor A Turrell	

**Also Present:**

Aaminah Aziz	Ernst and Young (external auditors)
Dan Cooke	Ernst and Young (external auditors)
Janet Dawson	Ernst and Young (external auditors)

**ECC Officers:**

Sam Andrews	Investment Manager (Essex Pension Fund)
Christine Golding	Chief Accountant
Andy Gribben	Senior Democratic Services Officer (clerk to the meeting)
Margaret Lee	Executive Director for Corporate and Customer Services
Paul Turner	Director, Legal and Assurance (Monitoring Officer)

Councillor S Barker observed the meeting in her capacity as Chairman of the Essex Pension Fund Strategy Board and Chairman of the Investment Steering Committee.

**1. Welcome and Introduction**

The Chairman welcomed members of the committee, officers in attendance, representatives for Ernst and Young, Councillor Barker and members of the public to the meeting.

He reminded members that the meeting was being broadcast live over the internet and that the full discussion would be publicly available on the County Council's website after the meeting.

**2. Membership, Apologies, Substitutions and Declarations of Interest.**

The report of Membership, Apologies and Declarations was received, and it was noted that:

1. The membership of the Audit, Governance and Standards Committee was noted.
2. Apologies for absence had been received from Councillor Turrell. Councillor Maddocks (substitute) also regretted he was unable to attend.
3. No declarations of interest were made. The Chairman reminded members that any interests must be declared during the meeting if the need to do so arose.

### **3. Minutes and Matters Arising**

The minutes of the meeting held on 4 June were approved as a correct record and signed by the Chairman, subject to a correction being made that noted the apology of Councillor Mitchell.

There were no matters arising.

### **4. Variation in the Order of Business**

The Chairman of the committee, Councillor Cutmore, with the approval of the members present determined that the order of business be varied from that shown on the agenda, so that the audit reports should be considered in advance of the recommendations on the Statement of Accounts.

### **5. 2017/2018 Audit Results Report for Essex County Council**

Members received a report (AGS/18/18 and appendix) from Margaret Lee, Executive Director for Corporate and Customer Services and a presentation from Janet Dawson of the external auditors Ernst and Young.

#### **Resolved**

That the report be noted.

### **6. 2017/2018 Audit Results Report for the Essex Pension Fund**

Members received a report (AGS/17/18 and appendix) from Margaret Lee, Executive Director for Corporate and Customer Services and a presentation from Janet Dawson of the external auditors Ernst and Young.

#### **Resolved**

That the report be noted.

**7. 2017/2018 Statement of Accounts**

Members received a report (AGS/16/18 and appendix) from Margaret Lee, Executive Director for Corporate and Customer Services and a presentation from Christine Golding, Chief Accountant, Essex County Council.

The Chairman reminded members that the draft Annual Governance Statement was considered by the Committee at the June meeting and that the version presented to them reflected the comments made at that meeting and also comments made by the Corporate Governance Steering Board.

**Resolved**

That the committee:

- i. Note the matters raised in the External Auditor's Audit Results Reports;
- ii. Approve the updated draft of the 2017/18 Annual Governance Statement, which is included in the Statement of Accounts document; and
- iii. Approve the updated draft of the 2017/18 Statement of Accounts.
- iv. Note the representations that the Executive Director for Corporate and Customer Services will make on behalf of the Council and the Essex Pension Fund (as set out within the Letters of Representation appended to the Audit Results Reports).

**8. Chairman's thanks to the external auditors, Ernst and Young**

The Chairman, on behalf of the committee, expressed his gratitude to the representatives from the external auditors, Ernst and Young. He noted that this was to be their last public meeting as, once they conclude the year's audit, they would cease to be the Council's auditors. The Chairman reminded the Committee that BDO LLP will be the Council's external auditor from 2018/19.

**9. Declarations of Interest**

Members received a report (AGS/19/18) from Paul Turner, Director, Legal and Assurance.

The report considered the current rules about when members who have declared an interest are required to leave the room and requested the committee to agree to consult members of the council on changing this rule.

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**Resolved**

That all Members of the Council are consulted on proposals to amend the constitution and the Code of Conduct so that:

- a) Interested Members who would not be permitted to vote will continue to be required to leave the room for the duration of all discussion relating to that matter and be unable to vote.
- b) Members may nonetheless be present in the room for the part of that item of business if they are providing information to the committee and subsequently answering questions as part of the meeting as part of a procedure adopted by that Committee at which a member of the public would also be allowed to take part.

**10 Date of next meeting**

The members of the committee noted that the next meeting was scheduled to be on Monday 17 September 2018 at 10:00am, Committee Room 1, County Hall.

In addition, it was noted that there was a meeting scheduled for 10 December 2018 at 10:00am, Committee Room 1, County Hall.

**11. Dates of 2019 meetings****Resolved**

That the dates for meetings of the Committee in 2019 shall be 25 March, 3 June, 29 July, 16 September and 9 December.

The meeting closed at 11.05am.

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**Chairman**  
**17 September 2018**



<b>Report title:</b> Annual Audit Letter – Year ending 31 March 2018	
<b>Report to Audit, Governance and Standards Committee</b>	
<b>Report author:</b> Margaret Lee – Executive Director of Corporate and Customer Services	
<b>Date of meeting:</b> 17 September 2018	<b>For:</b> Noting
<b>Enquiries to</b> Margaret Lee, Executive Director for Corporate and Customer Services <b>Tel. No:</b> 03330 134558	
<b>Divisions affected:</b> All Essex	

## 1. Purpose of report

- 1.1 The purpose of this report is to present formally the External Auditor's Annual Audit Letter for the year ending 31<sup>st</sup> March 2018 to the Committee.

## 2. Recommendations

- 2.1 That the report be noted.

### 3. Background and proposals

- 3.1 The detailed findings from the audit work performed by Ernst and Young in relation to the year ending 31 March 2018 were reported to the Committee on **30 July 2018** (when the Committee approved the 2017/18 Statement of Accounts).
- 3.2 The purpose of Ernst and Young's Annual Audit Letter (as appended) is to communicate the key issues arising from their audit work for 2017/18 to Members, and to other key stakeholders.
- 3.3 The Annual Audit Letter summarises the conclusions from all elements of the external audit work related to 2017/18, including that:
- i. **Unqualified opinions** were issued in relation to the Council's financial statements and those of the Essex Pension Fund, meaning that the financial statements gave a true and fair view of the financial position of the Council and Pension Fund as at 31 March 2018 and of the expenditure and income for the year then ended;
  - ii. The Council had put in place **proper arrangements** to secure value for money in the use of its resources, **except for** sustainable resource deployment arising from pressure from the economic downturn. In their Annual Audit Letter, external audit acknowledge the significant progress made by the Council in identifying savings and reducing the budget gap, however as these plans are yet to be finalised the 'except for' conclusion remains in place;
  - iii. The Pension Fund financial statements published in Essex County Council's financial statements were **consistent** with those financial statements published in the Essex Pension Fund Annual Report and Accounts;
  - iv. Other information published with the financial statements was **consistent** with the Annual Accounts and the Annual Governance Statement was consistent with the External Auditor's understanding of the Council;
  - v. The **deadline was met** for reporting to the National Audit Office on the consolidation pack that the Council is required to prepare for the Whole of Government Accounts;
  - vi. There were **no issues** to report in relation to the public interest; and
  - vii. There were no matters requiring written recommendations to be issued.

### 4. Policy context and Outcomes Framework

- 4.1 The Annual Audit Letter communicates the key matters related to the audit of the Council's Statement of Accounts for 2017/18. As such, this report relates to the Council's financial health and financial standing rather than to specific policies or outcomes.

**5. Financial Implications**

5.1 There are no specific financial implications associated with this report.

**6. Legal Implications**

6.1 There are no legal implications associated with this report.

**7. Staffing and other resource implications**

7.1 There are no staffing or other resource implications associated with this report.

**8. Equality and Diversity implications**

8.1 There are no equality and diversity or other resource implications associated with this report.

**9. List of appendices**

9.1 **Appendix A** – Annual Audit Letter for the year ending 31 March 2018.

**10. List of Background Papers**

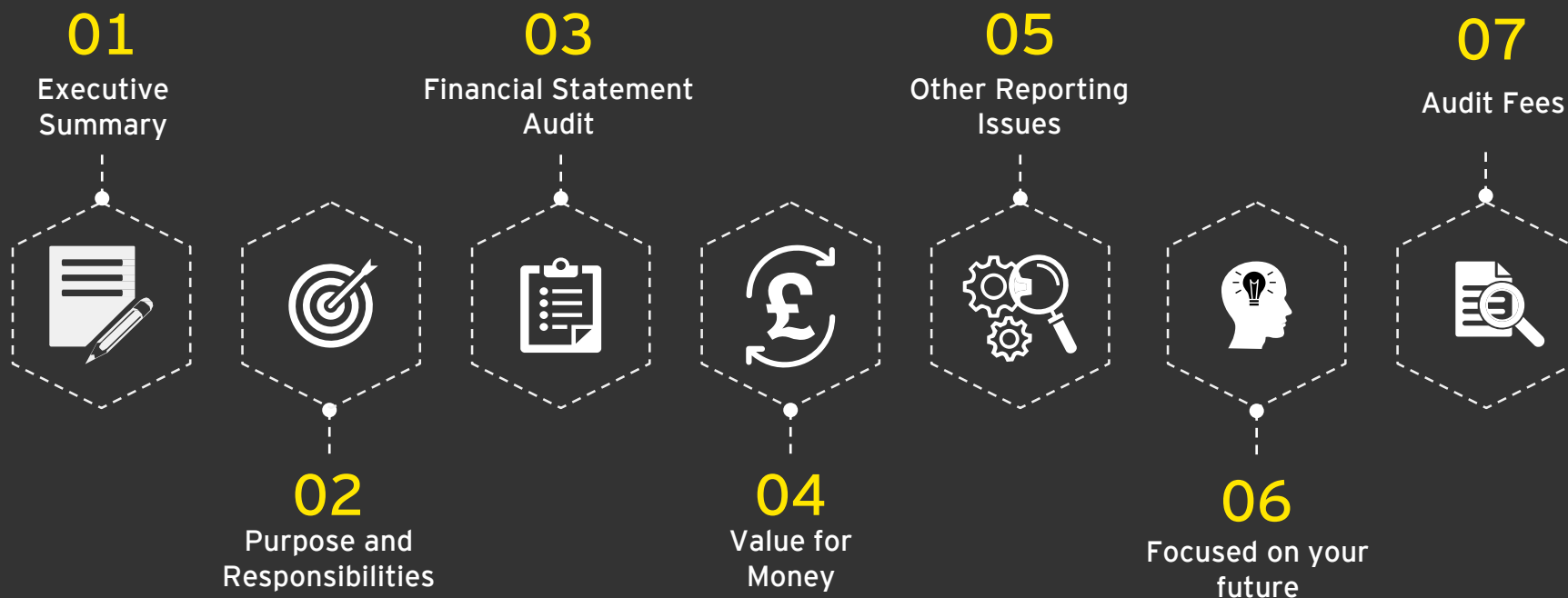
10.1 Not applicable for this report.

# Essex County Council

Annual Audit Letter for the year  
ended 31 March 2018

August 2018

# Contents



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psaa.co.uk](http://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 23 February 2017)' issued by 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 statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

**Our Complaints Procedure** - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



# 01 Executive Summary



## Executive Summary

We are required to issue an annual audit letter to Essex County Council (the Council) following completion of our audit procedures for the year ended 31 March 2018. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
<b>Opinion on the Council's and Pension Fund's:</b>	Unqualified - the financial statements give a true and fair view of the financial position of the Council and Pension Fund as at 31 March 2018 and of its expenditure and income for the year then ended.
▶ Financial statements	
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
<b>Concluding on the Council's arrangements for securing economy, efficiency and effectiveness</b>	We concluded that you have put in place proper arrangements to secure value for money in your use of resources, except for sustainable resource deployment arising from pressure from the economic environment.

Area of Work	Conclusion
<b>Reports by exception:</b>	
▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work.	Conclusion
<b>Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).</b>	We had no matters to report.



## Executive Summary (cont'd)

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As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was presented to the Audit, Governance and Standards Committee on 30 July 2018.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 21 August 2018.

We would like to take this opportunity to thank the Council and Pension Fund's staff for their assistance during the course of our work.

Janet Dawson

Partner  
For and on behalf of Ernst & Young LLP  
Encl





02

## Purpose and Responsibilities

# Purpose and Responsibilities

## The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2017/18 Audit Results Report to the 30 July 2018 Audit, Governance and Standards Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

## Responsibilities of the Appointed Auditor

Our 2017/18 audit work has been undertaken in accordance with the Audit Plan that we issued on 26 March 2018 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
  - ▶ On the 2017/18 financial statements, including the Pension Fund; and
  - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
  - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - ▶ Any significant matters that are in the public interest;
  - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on you Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the NAO.

## Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



03

## Financial Statement Audit

## Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health. We audited the Council and Pension Fund's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 31 July 2018. Our detailed findings were reported to the 30 July 2018 Audit, Governance and Standards Committee.

The key issues identified as part of our audit were as follows:

Significant Risk (Essex County Council)	Conclusion
<p><b>Risk of Fraud in Revenue and Expenditure Recognition</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>One area susceptible to manipulation is the capitalisation of revenue expenditure on Property, Plant and Equipment given the extent of the Council's Capital programme.</p>	<p>We focused on:</p> <ul style="list-style-type: none"> <li>Understanding the controls put in place by management relevant to this significant risk.</li> <li>Considering whether or not purchase invoices were being inappropriately classified as capital.</li> <li>Whether management were inappropriately processing journals that transferred amounts from revenue to capital.</li> </ul> <p>We performed the following audit procedures:</p> <ul style="list-style-type: none"> <li>Documented our understanding of the controls relevant to this significant risk and confirmed they have been appropriately designed.</li> <li>Reviewed and discussed with management any accounting estimates and policies on revenue or expenditure recognition for evidence of bias.</li> <li>Obtained breakdown of capital additions in the year and reviewed the descriptions to identify any items that could be revenue in nature.</li> <li>Designed journal procedures to identify and review adjustment manual journals that moved amounts from revenue codes to capital codes.</li> </ul> <p>Our testing did not identify any material misstatements from revenue and expenditure recognition. We judged all capital additions to be appropriately supported.</p> <p>Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position.</p>

## Financial Statement Audit (cont'd)

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The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk (Essex County Council and Pension Fund)	Conclusion
<b>Risk of Management Override</b>  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.  We identify and respond to this fraud risk on every audit engagement.	<p>We focused on:</p> <ul style="list-style-type: none"><li>▸ Understanding the risks of fraud and the controls put in place to address those risks by management and how the Audit, Governance and Standards Committee oversees management's processes over fraud.</li><li>▸ Considering the effectiveness of management's controls designed to address the risk of fraud.</li><li>▸ Determining an appropriate strategy to address those identified risks of fraud.</li><li>▸ Performing mandatory procedures in respect of journal entries, estimates and significant unusual transactions.</li></ul> <p>We performed the following audit procedures:</p> <ul style="list-style-type: none"><li>▸ Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.</li><li>▸ Reviewed accounting estimates for evidence of management bias.</li><li>▸ Evaluated the business rationale for significant unusual transactions.</li></ul> <p>We did not identify any material weaknesses in controls or evidence of material management override.</p> <p>We did not identify any instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions during our audit which appeared unusual or outside the Council or Pension Fund's normal course of business.</p>



## Financial Statement Audit (cont'd)

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The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk (Essex County Council)	Conclusion
<p><b>Property, Plant and Equipment Valuation</b></p> <p>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.</p> <p>Material judgemental inputs and estimation techniques are required to calculate the year-end PPE balances held in the balance sheet.</p> <p>As the Council's asset base is significant, and the outputs from the valuer are subject to estimation, there is a significant risk PPE may be under/overstated or the associated accounting entries incorrectly posted.</p> <p>ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.</p>	<p>We focused on:</p> <ul style="list-style-type: none"><li>▶ The adequacy of the scope of the work performed by the value including their professional capabilities.</li><li>▶ The reasonableness of the underlying assumptions used by the Council's expert valuer.</li></ul> <p>We performed the following audit procedures:</p> <ul style="list-style-type: none"><li>▶ Considered the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.</li><li>▶ Sample tested key asset information used by the valuer in performing their valuation.</li><li>▶ Used our own valuation experts for a sample of valuations completed in year by management's valuation expert.</li><li>▶ Considered revaluations in year, the basis of valuation of significant assets and any significant changes in use to ensure they remain appropriate if circumstances changed.</li></ul> <p>Our testing did not identify any material misstatements from property, plant and equipment valuation.</p> <p>Overall our audit work did not identify any material issues or concerns with the scope of work or underlying assumptions used by the Council's valuer.</p> <p>Our consideration of the annual cycle of valuations did not identify any issues with the implemented plan or with the movement on assets not revalued in year.</p>

## Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk (Essex County Council)	Conclusion
<p><b>Pension Valuation and Disclosures</b></p> <p>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.</p> <p>The Council's current pension fund deficit is a highly material item and the Code requires that this liability be disclosed on the Council's balance sheet.</p> <p>The information disclosed is based on the IAS 19 report issued to the Council by the actuary. As with other authorities, 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 significant risk.</p>	<p>We focused on:</p> <ul style="list-style-type: none"><li>▶ The reasonableness of the underlying assumptions used by the Council's expert - Barnett Waddingham.</li><li>▶ Ensuring the information supplied to the actuary in relation to Essex County Council was complete and accurate.</li><li>▶ Ensuring the accounting entries and disclosures made in the financial statements were consistent with the report from Barnett Waddingham.</li></ul> <p>We performed the following audit procedures:</p> <ul style="list-style-type: none"><li>▶ Assessed the work of the Pension Fund actuary including the estimations and judgements they have used by relying on the work of PWC - Consulting Actuaries commissioned by National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team.</li><li>▶ Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS 19.</li><li>▶ Assessed the reasonableness of the estimations and judgements used.</li></ul> <p>We reviewed the assessment of the pension fund actuary by PWC and EY pensions and undertook the work required with no issues identified.</p> <p>We identified one issue with the estimate of total pension fund assets used by the actuary. Due to the timing of their estimation for total fund assets there was a material difference with the year-end Pension Fund value. This resulted in the year-end report being re-run and an adjustment to the pension asset figure of £41.996 million was made.</p>

## Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk (Essex County Council)	Conclusion
<p><b>Waste Treatment PFI</b></p> <p>The Council is party to a high value contract regarding the proposed waste treatment plant in Basildon. Construction costs in respect of this plant as at 31 March 2018 were in the region of £107 million (borne by the private sector). To date the Facility has not yet operated at the level required by the contract and as the relevant acceptance tests are still to be achieved, the Facility remains in the commissioning phase.</p> <p>Consequently, the parties are utilising the appropriate contractual mechanisms to resolve the issues that have occurred in the commissioning phase. Matters where no agreement has been reached, have been referred by both parties for adjudication in accordance with the dispute resolution process under the contract. As at 31 March 2018, both parties have referred a number of contractual disputes to adjudication. Where matters have not been capable of resolution, the Council has commenced proceedings in the Technology &amp; Construction Court, which will include final determination on decisions of the adjudicator, where the decision has been disputed.</p> <p>Both parties are presently engaged in the litigation process with the trial expected to commence in April 2019. Given the significant costs to date and the inherent uncertainty of litigation, there is a risk that the disclosures in the financial statements are materially misstated.</p>	<p>We focused on:</p> <ul style="list-style-type: none"><li>▶ The reasonableness of the contingent liability in the accounts rather than the inclusion of a provision.</li></ul> <p>We performed the following audit procedures:</p> <ul style="list-style-type: none"><li>▶ Reviewed the Council's consideration of whether it should recognise the Waste Treatment Plant and associated PFI liability on its 2017/18 Balance Sheet.</li><li>▶ Reviewed the resolution of any agreements reached between parties.</li><li>▶ Established whether any provisions or contingent liabilities need to be recognised for any costs associated with potential contractor disputes.</li></ul> <p>We did not identify any instances of inappropriate judgements being applied.</p> <p>Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position in relation to the waste treatment PFI.</p>



## Financial Statement Audit (cont'd)

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The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk (Pension Fund)	Conclusion
<p><b>Valuation of Complex Investments (Unquoted and Direct Property Investments)</b></p> <p>Judgements are taken when valuing those investments whose prices are not publicly available. The material nature of investments means that any error in judgement could result in a material valuation error.</p> <p>Current market volatility means such judgments can quickly become outdated. Such variations could have a material impact on the financial statements.</p> <p>As these investments are more complex to value, we have identified the Fund's investments in property and unquoted pooled investment vehicles as a significant risk, as even a small movement in these assumptions could have a material impact on the financial statements.</p>	<p>We focused on:</p> <ul style="list-style-type: none"><li>▶ The complex valuation methods used for level 3 investments. This includes private equity, infrastructure and property. Total level 3 assets of the Fund at 31 March 2018: £1.2 billion</li></ul> <p>We performed the following audit procedures:</p> <ul style="list-style-type: none"><li>▶ Reviewed the basis of valuation for property investments and other unquoted investments and assessing the appropriateness of the valuation methods used;</li><li>▶ Assessed the competence of management experts; and</li><li>▶ Performed analytical procedures and checking the valuation output for reasonableness against our own expectations.</li></ul> <p>Our testing did not identify any material misstatements for level 3 year-end investment balances.</p> <p>We did not identify any inappropriate valuation methodologies or judgements being applied.</p> <p>We did not identify any issues with the competence of the management experts used.</p>

## Financial Statement Audit (cont'd)

### Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	<b>Essex County Council</b>  We determined planning materiality to be £20m (2016/17 £20m), which is 1% of gross expenditure on provision of services reported in the accounts. We consider gross expenditure on provision of services to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
	<b>Essex Pension Fund</b>  We determined planning materiality to be £130m (2016/17 £60m), which is 2% of the net assets of the scheme available to fund benefits as reported in the accounts. We consider net assets of the scheme to be one of the principal considerations for stakeholders in assessing the financial performance of the Pension Fund.  In the prior year we applied a threshold of 1%, meaning that planning materiality was set as £60m. Although the Pension Fund is a public interest entity and a major local authority based on its size, we have considered the overall risk profile and public interest in comparison to other Pension Fund's, and do not consider there to be any heightened risks that would mean we need to adopt a lower level of materiality.
Reporting threshold	<b>Essex County Council</b>  We agreed with the Audit, Governance and Standards Committee that we would report to the Committee all audit differences in excess of £1m (2016/17 £1m).
	<b>Essex Pension Fund</b>  We agreed with the Audit, Governance and Standards Committee that we would report to the Committee all audit differences in excess of £6.5m (2016/17 £3m).

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- ▶ Remuneration disclosures including any severance payments, exit packages and termination benefits. As these disclosures are considered to be of interest to users of the accounts we adopted judgement in ensuring that we tested the disclosures in sufficient detail to ensure they are correctly disclosed. In particular we confirmed the figures for senior officer remuneration in full.
- ▶ Related party transactions. The accounting standard requires us to consider the disclosure from the point of materiality to either side of the transaction. We therefore considered the nature of the relationship in applying materiality.
- ▶ Councillors' allowances. As these disclosures are considered to be of interest to users of the accounts we adopted judgement in ensuring that we tested the disclosures in sufficient detail to ensure they were correctly disclosed.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

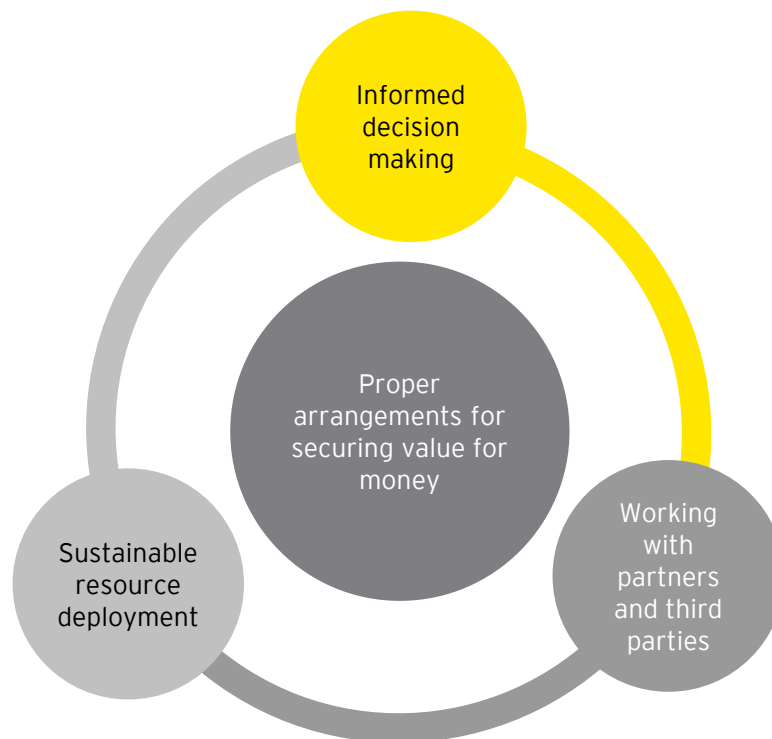


## 04 Value for Money

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. This is known as our value for money conclusion.

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.



We identified three significant risks in relation to these arrangements. The tables below present the findings of our work in response to the risks identified and any other significant weaknesses or issues to bring to your attention.

We have performed the procedures outlined in our audit plan. In our value for money conclusion issued on 31 July 2018, we concluded that you had put in place proper arrangements to secure value for money in your use of resources, except for sustainable resource deployment arising from pressure from the economic environment.

The key value for money issues identified as part of our audit were as follows:

Significant Risk	Conclusion
<p><b>Pressure from Economic Environment</b></p> <p>To date the Council has responded well to the financial pressure resulting from the continuing economic downturn.</p> <p>However, the Council continues to face significant financial challenges over the next three to four years. Whilst the Council is able to present a balanced budget for 2018/19, this does assume full delivery of savings. At the time of writing our audit plan there was a forecasted underlying budget gap of £32m in 2019/20 increasing to £95m in 2020/21. The continuing restructuring taking place across the organisation is designed to support the delivery of some savings however may increase the risk of that delivery as changes to roles and responsibilities take place in the coming year.</p> <p>Last year, in recognition of the financial challenge, we provided an except for conclusion on the Council's arrangements for securing financial resilience, and for challenging how it secures economy, efficiency and effectiveness. Given the scale of the savings required, there is a risk that savings plan to bridge the gap is not robust and/or achievable.</p>	<p>We undertook the procedures as set out in our audit strategy which focused on:</p> <ul style="list-style-type: none"> <li>▸ The adequacy of the Council's budget monitoring process, comparing budget to outturn &amp; the robustness of any assumptions used in medium term planning;</li> <li>▸ The Council's approach to prioritising resources whilst maintaining services; and</li> <li>▸ The savings plans in place, and assessing the likelihood of whether these plans can provide the Council with the required savings and efficiencies over the medium term.</li> </ul> <p>Clearly the scale of savings and service transformation to be delivered by the Council over the medium term are significant. The Council currently has a good level of un-earmarked general fund reserves (£55.2 million plus £4 million of emergency contingency at 31 March 2018). These provide the Council with the flexibility to manage its financial position over the short-to-medium term, and reduce the risk that an unexpected overspend, or unexpected one-off item of expenditure, has a detrimental impact on the Council's financial standing. The Council currently intends to maintain the General Fund balance at its current level. The Council also has in place substantial levels of earmarked reserves (£285 million at 31 March 2018), although some of these are for restricted use. The existence of these reserves provides further evidence of the Council's prudent approach to financial management. Our review of the budget setting process, assumptions used in financial planning, in year financial monitoring, and the Council's history of delivery did not identify any significant matters. As at 31 March 2018 the Council had reduced the budget gap to £32m in 2019/20 and £95m in 2020/21, amounts which exceed the usable reserves available to the Council. The Council, in line with previous years, is undertaking a review of budget proposals (savings and income generating opportunities) to bridge the gap. At this stage, the 2018/19 year savings are substantially identified, but not yet finalised. Proposals are in place for 2019/20 and work has been commissioned to identify savings for 2020/21.</p> <p>We therefore concluded that you have put in place proper arrangements to secure value for money in your use of resources, except for the matter noted above.</p>

The key value for money issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
<p><b>Take informed decisions - Waste Treatment Plant - Basildon</b></p> <p>The Council is party to a high value contract regarding the proposed waste treatment plant in Basildon. Construction costs in respect of this plant as at 31 March 2018 were in the region of £107 million (borne by the private sector). To date the Facility has not yet operated at the level required by the contract and as the relevant acceptance tests are still to be achieved, the Facility remains in the commissioning phase. Consequently, the parties are utilising the appropriate contractual mechanisms to resolve the issues that have occurred in the commissioning phase. Matters where no agreement has been reached have been referred to adjudication to determine an outcome. As at 31 March 2018, both parties have referred a number of contractual disputes to adjudication. Where matters have not been capable of resolution, the Council has commenced proceedings in the Technology &amp; Construction Court, which will include final determination on decisions of the adjudicator where the decision has been disputed. Both parties are presently engaged in the litigation process with the trial expected to commence in April 2019.</p> <p>Given the significant costs to date, this presents a VFM risk should the plant not become fully operational in accordance with the contract.</p>	<p>Our work in response to the risk included:</p> <p>Review of the PFI business case, including the outline procurement process and value for money assessments; and monitoring developments throughout the year.</p> <p>Our work indicated that ECC does have good internal governance arrangements with regard to this project and has established sound external governance arrangements through ongoing engagement with DEFRA, the sponsoring central government department. Through the appointment of external legal, technical and financial advisors the Council ensures a detailed oversight of the project and it is clear that the Council have sought to achieve VFM as part of their procurement as well as contract management processes.</p> <p>There is clear evidence that the Council utilises all available financial and technical information when undertaking performance management procedures and making informed critical decisions regarding the project.</p> <p>ECC continue to be exposed to financial and legal risks resulting from this PFI contract. For a complex organisation like ECC, this is not unusual. With a reducing funding position over the medium term and an increased focus on different ways of working in response, robust management of these risks remains important.</p> <p>ECC continues to apply robust contract management and monitoring arrangements over this significant contract and through these arrangements ensures it has a comprehensive understanding of all financial, legal and compliance risks to which it is exposed.</p>



The key value for money issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
<p><b>Commercialisation</b></p> <p>We identified three main components for which to focus our review of the Council's commercialisation agenda:</p> <ul style="list-style-type: none"> <li>▸ Garden Communities;</li> <li>▸ Property Investment Fund; and</li> <li>▸ Housing Project</li> </ul> <p>Authorities are increasingly under scrutiny as a result of investment and commercialisation activities some are undertaking to increase income to meet funding gaps for the provision of services. In 2017/18 MHCLG updated its guidance on the Prudential Code, in response to concerns that authorities were:</p> <ul style="list-style-type: none"> <li>▸ Taking advantage of lower than market interest rates offered by PWLB to borrow in advance of service need solely to generate profit, which MHCLG consider not to be prudential; and</li> <li>▸ Entering into profit generating investment schemes that fall outside the responsibilities or skills of the council, such as the purchase of retail parks and shopping centres, or outside the council's area, thereby not for the purpose of regeneration of their area, or both.</li> </ul> <p>The effective date per the guidance applies for financial years on or commencing after 1 April 2018. As a result of this 'the Investment Guidance requires local authorities who have borrowed in advance of need solely to generate a profit to explain why they have chosen to disregard statutory guidance'. It is also worth noting that 'nothing in the Investment Guidance or the Prudential Code overrides statute, and local authorities will need to consider whether any novel transaction is lawful by reference to legislation'.</p>	<p>Our work in response to the risk included:</p> <ul style="list-style-type: none"> <li>▸ Reviewing the governance arrangements of the projects;</li> <li>▸ Reviewing the financial impact of these projects and potential risks;</li> <li>▸ Reviewing any associated laws and regulations; and</li> <li>▸ Assessing the risk to going concern</li> </ul> <p>We did not identify any issues with the progress of the Garden Communities projects. The Housing project is in its infancy and no issues have been identified during our review.</p> <p>The Council approved the creation of a £50 million Property Investment Fund (PIF) in July 2017 to act as an income stream, which was initially planned to be funded through borrowing.</p> <p>The £50 million allocated to the PIF is included in the 2017/18 capital programme, however acquisitions are planned to take place over a 24 month period, which takes the PIF activity past the effective date.</p> <p>In 2017/18 the Council purchased two investment properties, totalling £27 million, outside the Essex region solely for the purposes of generating investment income. However, in line with the updated guidance the Council have funded these properties using capital receipts and capital grants.</p> <p>The larger investment property acquired in the period is a retail park which we have identified as higher risk. We have therefore performed additional audit procedures on the internal rate of return and net yield assumptions applied by the Council in assessing the future incomes and assessed the purchase price paid by the Council. All assumptions applied are within our acceptable range and no specific issues were identified with the purchase price.</p> <p>We also confirmed that the Council, in acknowledging the revised guidance, had made the relevant disclosure in their investment strategy for 2018/19 as per the requirement.</p>



05

## Other Reporting Issues





## Other Reporting Issues

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### Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. We had no issues to report.

### Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

### Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

### Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.



## Other Reporting Issues (cont'd)

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### Objections Received

We did not receive any objections to the 2017/18 financial statements from members of the public.

### Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

### Independence

We communicated our assessment of independence in our Audit Results Report to the Audit, Governance and Standards Committee on 30 July 2018. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

### Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

Our audit identified one control issue to bring to the attention of the Audit, Governance and Standards Committee. The Council were unable to provide a working copy of their operating model for one PFI scheme. As a result of this alternative audit procedures had to be performed. We therefore recommend that the Council source a working copy of the operating model for this PFI scheme.



06

## Focused on your future



## Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below. The Council will need to keep these standards under continued focus during 2018/19.

Standard	Issue	Impact
<b>IFRS 9 Financial Instruments</b>	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> <li>▶ How financial assets are classified and measured;</li> <li>▶ How the impairment of financial assets are calculated; and</li> <li>▶ The disclosure requirements for financial assets.</li> </ul> <p>There are transitional arrangements within the standard and the 2018/19 Accounting Code of Practice for Local Authorities has now been issued, providing guidance on the application of IFRS 9. In advance of the Guidance Notes being issued, CIPFA have issued some provisional information providing detail on the impact on local authority accounting of IFRS 9, however the key outstanding issue is whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Although the Code has now been issued, providing guidance on the application of the standard, along with other provisional information issued by CIPFA on the approach to adopting IFRS 9, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Council will have to:</p> <ul style="list-style-type: none"> <li>▶ Reclassify existing financial instrument assets;</li> <li>▶ Re-measure and recalculate potential impairments of those assets; and</li> <li>▶ Prepare additional disclosure notes for material items.</li> </ul>
<b>IFRS 15 Revenue from Contracts with Customers</b>	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none"> <li>▶ Leases;</li> <li>▶ Financial instruments;</li> <li>▶ Insurance contracts; and</li> <li>▶ For local authorities; Council Tax and NDR income.</li> </ul> <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p>	<p>As with IFRS 9, some provisional information on the approach to adopting IFRS 15 has been issued by CIPFA in advance of the Guidance Notes. Now that the Code has been issued, initial views have been confirmed; that due to the revenue streams of Local Authorities the impact of this standard is likely to be limited.</p> <p>The standard is far more likely to impact on Local Authority Trading Companies who will have material revenue streams arising from contracts with customers. The Council will need to consider the impact of this on their own group accounts when that trading company is consolidated.</p>



## Focused on your future (cont'd)

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Standard	Issue	Impact
<b>IFRS 16 Leases</b>	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard and although the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.</p>

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07

## Audit Fees

## Audit Fees

Our fee for 2017/18 is in line with the scale fee set by the PSAA and reported in our 30 July 2018 Audit Results Report.

County Council	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
	£	£	£	£
Total Audit Fee - Code work (note 1)	173,210	163,981	163,981	207,974
Non-audit work-Teacher's Pension	13,250	13,250	13,250	13,250
<b>Total Audit Fees</b>	<b>186,460</b>	<b>177,231</b>	<b>177,231</b>	<b>221,224</b>

### Note 1:

As indicated in our audit planning board report presented to the Audit Governance and Standards Committee on 26 March 2018 the audit risks identified during 2017/18 have resulted in additional audit procedures. We are currently in discussions with the Executive Director for Corporate and Customer Services to agree the additional which is £9,229. This is also subject to approval by the PSAA.

Pension Fund	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
	£	£	£	£
Total Audit Fee - Code work (note 2)	36,766	36,766	31,266	36,766
<b>Total Audit Fees</b>	<b>36,766</b>	<b>36,766</b>	<b>31,266</b>	<b>36,766</b>

### Note 2:

As reported in our Audit Planning Board report dated 26 March 2018, we plan to charge an additional fee of £5,500 in 2017/18 to take into account the additional work required to respond to IAS19 assurance requests from scheduled bodies.

This additional fee has been discussed with management and is subject to approval by the PSAA.

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<b>Report title:</b> Internal Audit and Counter Fraud Progress Report	
<b>Report to:</b> Audit, Governance and Standards Committee	
<b>Report author:</b> Paula Clowes – Head of Assurance	
<b>Date:</b> 17 September 2018	<b>For:</b> Discussion
<b>Enquiries to:</b> Paula Clowes – Head of Assurance <a href="mailto:paula.clowes@essex.gov.uk">paula.clowes@essex.gov.uk</a>	
<b>County Divisions affected:</b> All Essex	

## **1. Purpose of Report**

- 1.1 This report provides the Audit, Governance and Standards Committee with the current position regarding Internal Audit and Counter Fraud activity in relation to the 2017/2018 Internal Audit Plan (approved by the former Audit Committee in March 2017) and 2018/19 Internal Audit Plan (approved by the Audit Governance and Standards Committee in March 2018). It reflects the situation as at 5 September 2018.

## **2. Recommendation**

- 2.1 That the report be noted.

## **3. Details of Internal Audit and Counter Fraud Activity**

### **3.1 Final Internal Audit Reports Issued**

- 3.1.1 When Internal Audit issues a report it gives an overall assurance rating which is either 'Good' 'Adequate' 'Limited' or 'No' Assurance. The final reports issued since the March 2018 Audit Governance and Standards Committee are listed below. Executive Summaries for those reports receiving 'Limited Assurance' or 'No Assurance' are set out in Appendix 2. Full reports are available to Members on request.

<b>No</b>	<ul style="list-style-type: none"> <li>Essex Partnership University NHS Foundation Trust</li> </ul>
<b>Limited</b>	<ul style="list-style-type: none"> <li>Off Payroll Engagement (IR35)</li> <li>Budget Monitoring</li> <li>Social Media</li> <li>Social Care Case Management System</li> <li>Declarations of Interest</li> <li>IT Asset Management</li> <li>Engaines Primary and Nursery School</li> <li>ECC Companies – follow up</li> <li>User Access Management</li> <li>Absence Management</li> </ul>
<b>Adequate</b>	<ul style="list-style-type: none"> <li>South East Local Enterprise Partnership</li> <li>Health and Safety Assurance Map</li> <li>Information Governance</li> <li>Elm Hall Primary School</li> <li>Risk Management</li> <li>Early Years Provision</li> <li>Hazelmere Infant and Nursery School</li> <li>Oracle Integrated Assurance *</li> <li>Procurement</li> <li>Contract Management</li> <li>Resource Utilisation – Workforce Planning (Adults)</li> <li>Personal Budgets (Adults) – Direct Payments</li> </ul>
<b>Good</b>	<ul style="list-style-type: none"> <li>Better Care Fund</li> <li>Pensions Investment</li> <li>Pensions Administration</li> <li>Prettygate Junior School</li> <li>Treasury Management</li> </ul>
<b>Other</b>	<ul style="list-style-type: none"> <li>SPONGE – Interreg Grant</li> <li>Carbon Reduction Commitment Energy Efficiency Scheme</li> <li>Pre Birth to 19 Years – health check review</li> <li>Department for Transport Bus Service Operators Grant</li> <li>PROFIT - Interreg Grant</li> <li>SELEP</li> </ul>

\* Oracle Integrated Assurance - This work assessed the controls within Accounts Receivable, Accounts Payable, Payroll, General Ledger, 'iExpenses', cash receipting and the various reconciliations and interfaces between TCS modules and between TCS and other systems including the bank account.

### **3.2 Review of the 2018/19 Internal Audit Plan**

- 3.2.1 At the end of September 2018, the Head of Assurance will carry out a full half year review of the Audit Plan with any required changes being reported to the Executive Director of Corporate and Customer Services (section 151 officer) and the Audit, Governance and Standards Committee in December 2018.

### **3.3 Implementation of Internal Audit Recommendations**

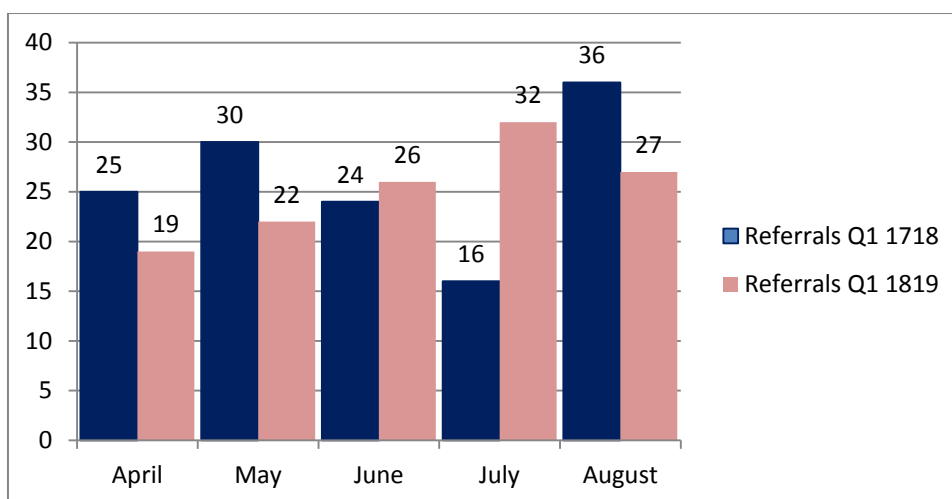
- 3.3.1 Whenever any recommendations are made in an audit report, Managers are asked to agree what activity they will undertake to address the recommendation and to agree a timescale for implementation
- 3.3.2 Progress on the implementation of recommendations is monitored by the Internal Audit service.
- 3.3.3 Critical or Major recommendations which have not been implemented within the agreed timescale are reported to the Audit, Governance and Standards Committee. Reports on outstanding recommendations are provided to Functional Leadership Teams (FLT) quarterly.
- 3.3.4 As at 30 August 2018 there were 5 Critical and 32 Major recommendations open, of which 5 Critical and 7 Major recommendations have moved beyond their agreed due date. See Appendix 3 for further detail.
- 3.3.5 The current assessment rationale for grading the priority of recommendations made and the level of assurance (audit opinion) for each individual audit review is attached at Appendix 1.

### **3.4 Counter Fraud Activity**

- 3.4.1 The Counter Fraud Team has a remit to prevent, detect and investigate fraud. In some cases we will pursue sanction through the civil or criminal courts and where possible seek to recover lost/stolen monies.

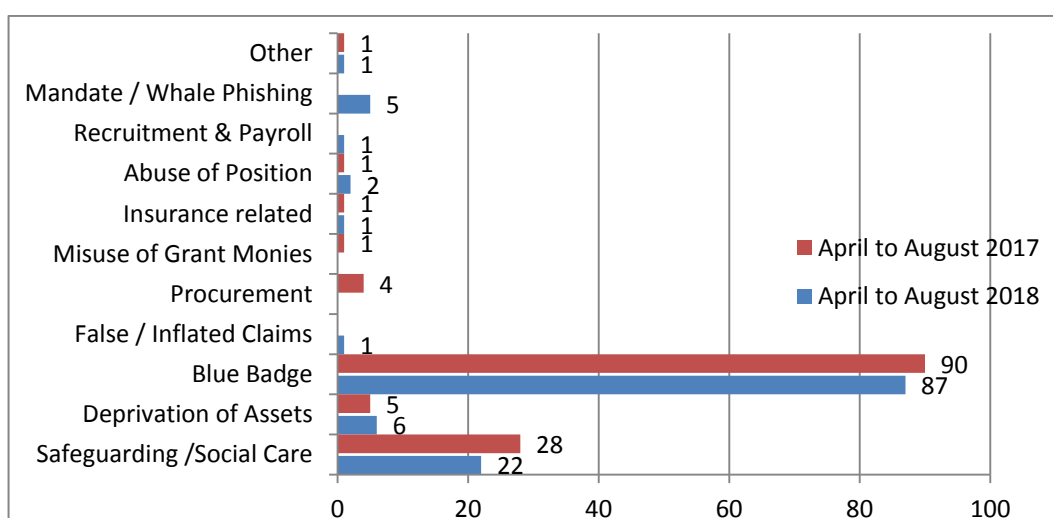
#### **Fraud Referrals**

- 3.4.2 During the period 1 April to 31 August 2018 126 fraud referrals were received (including blue badge referrals). The table below shows how this compares to the same period last year and demonstrates that the number of referrals received this year is consistent with the previous year (131 referrals received during the same period last year). There has been a slight decrease in the number of social care and blue badge referrals. Scheduled fraud awareness training sessions in these areas may increase the referrals received.



## Types of Referrals

3.4.3 The bar chart below demonstrates the type of referrals received, with a comparison to the referrals received last year.



## Internal Data Matching

3.4.4 In May 2018 the Counter Fraud team started an **internal data matching exercise**, focussing on Adult Social Care data. Adult Social Care payments have been recognised nationally as a significant fraud risk to local authorities who have reported significant fraud losses<sup>1</sup>. The objective of this data matching exercise is to:

- Identify and rectify duplicated packages – i.e. open domiciliary & residential care packages (where a cash payment is being made)
- Identify and stop payments that are being paid to service users who are deceased

<sup>1</sup> <http://www.cipfa.org/services/counter-fraud-centre/fraud-and-corruption-tracker>

- Identify and stop payments that are being made to service users who are in receipt of health funding (and no longer entitled to social care funding)

3.4.5 This project is in its infancy but early results suggest that significant savings and recoveries can be realised using this approach. Investigation work is ongoing, although savings of **£57,256** were identified in quarter 1.

### **Essex Council Tax Data Matching Initiative**

3.4.6 The Council is supporting an Essex-wide data matching project that involves all councils providing data to ensure that income received from council tax is maximised. ECC provides data sets to support the data matching which is now undertaken on a monthly basis and the Counter Fraud Team provides support to districts in dealing with the output. Total savings recorded to date (from July 2017) are **£692,122**.

### **Fraud Awareness Training**

3.4.7 The Council re-launched the corporate e-learning in 2017. At present, 83% of all ECC staff have completed the e-learning modules relating to:

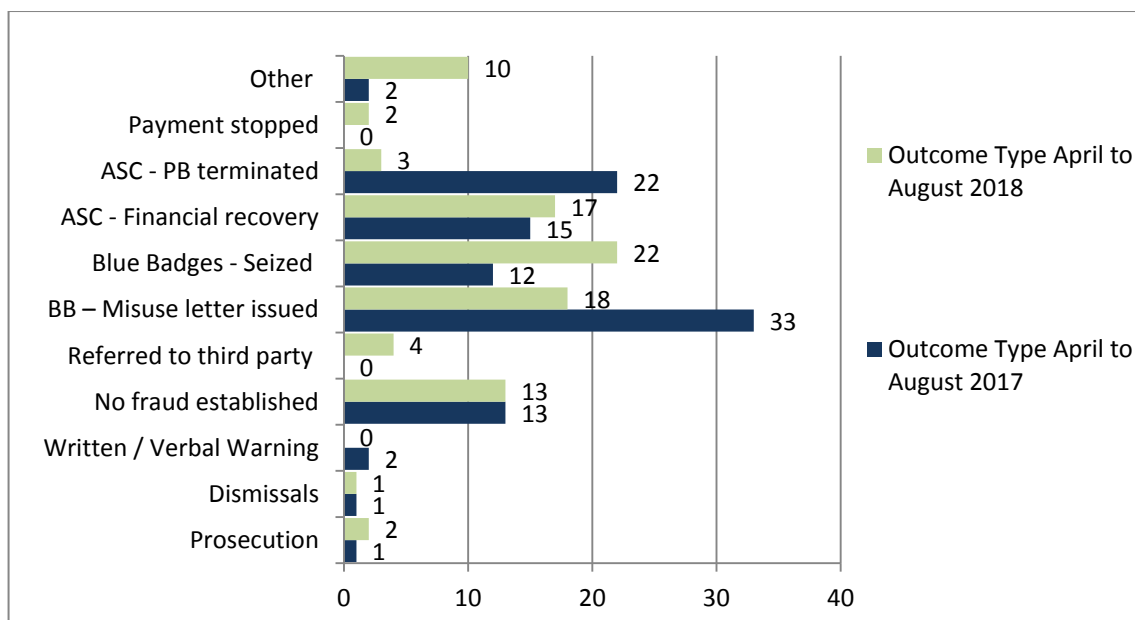
- Anti-fraud and corruption
- Anti-bribery and money laundering.

3.4.8 In addition, the Counter Fraud Team have scheduled fraud awareness sessions for the following teams:

- Executive Support
- Children and Families Social Care
- Civil Enforcement Officers - ie those who enforce parking and other traffic contraventions.

### **Outcomes**

3.4.9 During the period April to August 2018 , the following outcomes and sanctions have been achieved:



### Blue Badge Prosecution

3.4.10 With the assistance of Essex Legal Services, the first in-house prosecution in relation to blue badge misuse was completed. The culprit pleaded guilty to two offences:

1. Using a blue badge when they were not the badge holder – the badge holder was deceased; and
2. Failing to surrender the badge for inspection.

The defendant was fined £125 for each offence and ordered to pay £500 towards the Council's costs.

### Fundamental Dishonesty Claim

3.4.11 The Counter Fraud Team were involved in a case where the Council was sued by an individual who claimed to have been injured after tripping on the highway where tree roots had raised the tarmac. After investigation it emerged the claimant's injuries were actually sustained when a friend jumped on his back. Despite the claimant arguing his case in court, a judge made a finding of fundamental dishonesty against the claimant and did not award any of the £4,000 compensation he was claiming.

### Financial Recoveries

3.4.12 In addition to the savings identified during the data matching exercise, this period **£24,028** was recovered related to fraud matters and a further **£113,172** was identified and in the process of being recovered.

3.4.13 It is estimated that **£307,424** future losses were prevented. These mainly related to personal budgets (adult social care) which have been reduced or

terminated during the year due to fraud or misrepresentation of circumstances, such as care needs have been overstated, misuse of funds, deprivation of assets. Future losses are estimated as the annual value of a personal budget (i.e. the cost to ECC if the personal budget had continued to be paid until the next social care review).

- 3.4.14 Notional savings of £12,650 have been identified as 22 expired blue badges have been taken out of circulation, each badge being attributed a value of £575 (figure determined by the Cabinet Office).

#### **4. Financial Implications**

- 4.1 There are no financial implications as the Internal Audit and Counter Fraud activity 2018/2019 will be met within existing resources.

#### **5. Legal Implications**

- 5.1 Internal Audit is a key way in which councillors can be assured that the Council is using its resources effectively and that the Council is discharging its fiduciary duties concerning taxpayers' money. It helps services to design systems which have appropriate controls and also helps identify and respond to breaches if they occur. This report seeks to update the Audit, Governance and Standards Committee on the activities of the Council's Internal Audit and Counter Fraud service for the purposes of providing further assurance.

#### **6. Equality and Diversity Implications**

- 6.1 Section 149 of the Equality Act 2010 creates the public sector equality duty which requires that when ECC makes decisions it must have regard to the need to:
- (a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act
  - (b) Advance equality of opportunity between people who share a protected characteristic and those who do not
  - (c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.
- 6.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation. Equality and diversity matters have been considered in the production of the progress report.



## **7. List of Appendices**

Appendix 1 - Current assessment rationale for grading the priority of recommendations in Internal Audit reports.





Appendix 2 - Executive Summaries of 'Limited Assurance' and 'No Assurance' Internal Audit reports.

Appendix 3 – Critical and Major Recommendations which are overdue for implementation as at 30 August 2018

## **8. List of Background Papers**


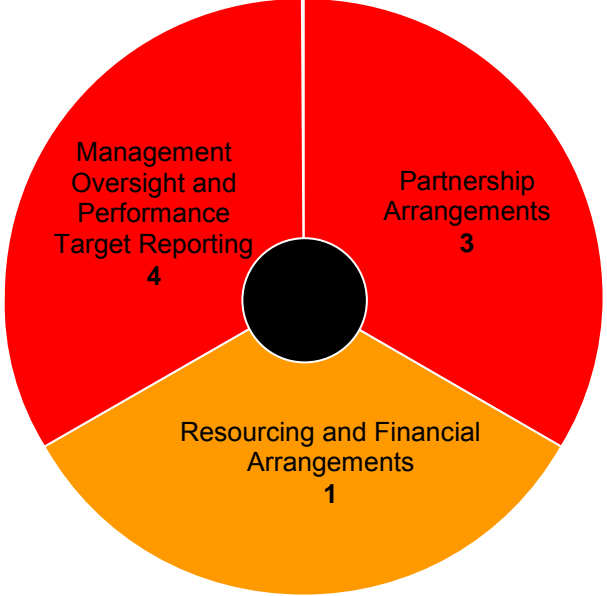
Internal Audit reports

## Internal Audit Assessment Rationale

Risk rating	Assessment rationale
 Critical	<p>Critical and urgent in that failure to address the risk could lead to one or more of the following occurring:</p> <ul style="list-style-type: none"> <li>▪ Significant financial loss (through fraud, error, poor value for money)</li> <li>▪ Serious safeguarding breach</li> <li>▪ Life threatening or multiple serious injuries</li> <li>▪ Catastrophic loss of service</li> <li>▪ Failure of major projects</li> <li>▪ Critical Information loss leading to Information Commissioner's Office (ICO) referral</li> <li>▪ Reputational damage – Intense political and media scrutiny i.e. front-page headlines, television coverage.</li> <li>▪ Possible criminal, or high profile, civil action against the Council, Members or officers.</li> <li>▪ Intervention by external agencies</li> </ul> <p><b>Remedial action must be taken immediately</b></p>
 Major	<p>Major in that failure to address the issue or progress the work would lead to one or more of the following occurring:</p> <ul style="list-style-type: none"> <li>▪ High financial loss (through fraud, error, poor value for money)</li> <li>▪ Safeguarding breach</li> <li>▪ Serious injuries or stressful experience requiring medical treatment, many work days lost.</li> <li>▪ Significant disruption to service (Key outcomes missed, some services compromised. Management action required to overcome medium term difficulties)</li> <li>▪ Major Information loss leading to internal investigation</li> <li>▪ Reputational damage – Unfavourable external media coverage. Noticeable impact on public opinion.</li> <li>▪ Scrutiny required by external agencies</li> </ul> <p><b>Remedial action must be taken urgently</b></p>
 Moderate	<p>Moderate in that failure to address the issue or progress the work would lead to one or more of the following occurring:</p> <ul style="list-style-type: none"> <li>▪ Medium financial loss (through fraud, error or poor value for money)</li> <li>▪ Significant short-term disruption of non-core activities</li> <li>▪ Scrutiny required by internal committees.</li> <li>▪ Injuries or stress level requiring some medical treatment, potentially some work days lost</li> <li>▪ Reputational damage – Probable limited unfavourable media coverage.</li> </ul> <p><b>Prompt specific action should be taken</b></p>
 Low	<p>Low in that failure to address the issue or progress the work would lead to one or more of the following occurring:</p> <ul style="list-style-type: none"> <li>▪ Low financial loss (through error or poor value for money)</li> <li>▪ Minor errors in systems/operations or processes requiring action or minor delay without impact on overall service delivery schedule. Handled within normal day to day routines.</li> <li>▪ Reputational damage – Internal review, unlikely to have a wider impact.</li> </ul> <p><b>Remedial action is required</b></p>
Assurance Level	Description
Good	<b>Good assurance</b> – there is a sound system of internal control designed to achieve the objectives of the system/process and manage the risks to achieving those objectives. Recommendations will normally only be of Low risk rating. Any Moderate recommendations would need to be mitigated by significant strengths elsewhere.
Adequate	<b>Adequate assurance</b> – whilst there is basically a sound system of control, there are some areas of weakness, which may put the system/process objectives at risk. There are Moderate recommendations indicating weaknesses but these do not undermine the system's overall integrity. Any Critical recommendation will prevent this assessment, and any Major recommendations relating to part of the system would need to be mitigated by significant strengths elsewhere.
Limited	<b>Limited assurance</b> – there are significant weaknesses in key areas in the systems of control, which put the system/process objectives at risk. There are Major recommendations or a number of moderate recommendations indicating significant failings. Any Critical recommendations relating to part of the system would need to be mitigated by significant strengths elsewhere.
No	<b>No assurance</b> – internal controls are generally weak leaving the system/process open to significant error or abuse or reputational damage. There are Critical recommendations indicating major failings


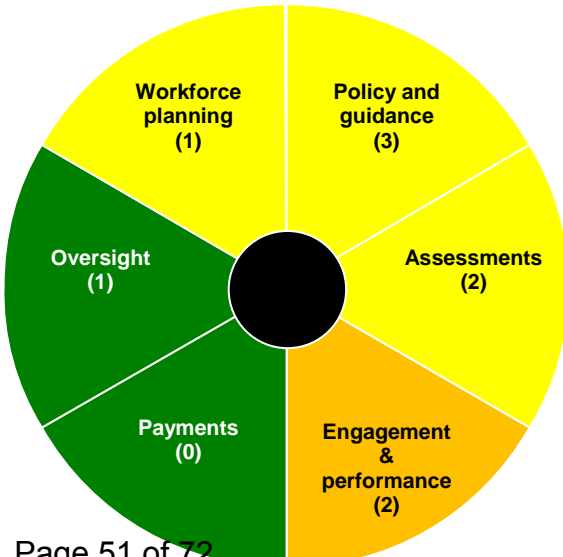




# Final Internal Audit Report 2018/19 – Essex Partnership University Trust (EPUT) - (ASC16)

## 1. Executive Summary

<p><b>Function:</b> Adult Social Care  <b>Audit Sponsor:</b> Nick Presmeg, Director, Adult Social Care  <b>Distribution List:</b> Nick Presmeg, Fiona Davis, Director Safeguarding and Quality Assurance (ASC); Chris Martin, Director Strategic Commissioning; Emily Oliver, Head of Commissioning Vulnerable People; Matthew Barnett, Mental Health Commissioner; Jennifer Mellani, Assistant County Solicitor; Giles Goodeve, Service Manager, Adult Social Care - Quality Assurance; David Williams, Senior Operational Policy Advisor; Margaret Lee, Executive Director for Corporate and Customer Services; Gavin Jones, Chief Executive Officer, Cllr David Finch, Leader of the Council; Cllr John Spence  <b>Final Report Issued:</b> 4 September 2018  <b>Date of last review:</b> N/a</p>	<p><b>Overall Opinion</b></p> <p><b>NO ASSURANCE</b> </p> <p><b>Direction of Travel</b></p> <p>This area has not been audited before</p>	<p><b>Number of Control Design Issues Identified</b></p> <p>② Critical          ① Major          ① Moderate          ① Low</p>	<p><b>Number of Control Operating in Practice Issues Identified</b></p> <p>① Critical          ② Major          ② Moderate          ① Low</p>	<p><b>Number of Recommendations</b></p> <p>8 Made          0 Rejected          0 Critical Rejected          0 Major Rejected</p>
<p><b>Scope of the Review and Limitations:</b></p>	<p>The objective of the audit was to evaluate the Section 75 Partnership Agreement between ECC and the Essex Partnership University NHS Foundation Trust (EPUT) for the integrated provision of mental health and substance misuse services for working age adults. The audit focussed on the high level controls in place only and did not include detailed testing. It is not therefore a definitive list of all improvements that are required.</p> <p>The audit did not review or comment on the quality of care provided by EPUT which is covered separately by the Care Quality Commission's inspection regime.</p>			
<p><b>Key Messages</b></p> <p>This audit was carried out <b>at the request of the Director, Adult Social Care</b> following concerns about the effectiveness and working practices of the Section 75 Partnership arrangement with EPUT. The agreed Terms of Reference can be seen at Appendix 1.</p> <p>Three critical issues have been identified relating to lack of clarity over:</p> <ul style="list-style-type: none"> <li>future commissioning intentions, contingency arrangements and exit/transition plans as the current Partnership Agreement ceases on 31 March 2019</li> <li>service delivery standards, policies and practice between ECC and EPUT with key performance measures that are not robust; and</li> <li>safeguarding referral pathways and safeguarding incidents.</li> </ul> <p>It is acknowledged that the effective delivery of mental health services is a national and not just a local issue and that significant project management support together with strong leadership will be required to ensure the issues identified in this report are satisfactorily resolved.</p> <p>In addition, EPUT have recently undergone a number of CQC inspections. Any improvement plans arising from these will need to be considered alongside our audit findings.</p>		<p><b>Each risk area for this review is shown as a segment of the wheel. The key to the colours on the wheel is as follows:</b></p>  <p>Critical priority Control Design or Control Operating in Practice issues identified</p> <p>Major priority Control Design or Control Operating in Practice issues identified</p> <p>Moderate priority Control Design or Control Operating in Practice issues identified</p> <p>No / Minor Control Design or Control Operating in Practice Issues identified</p>		







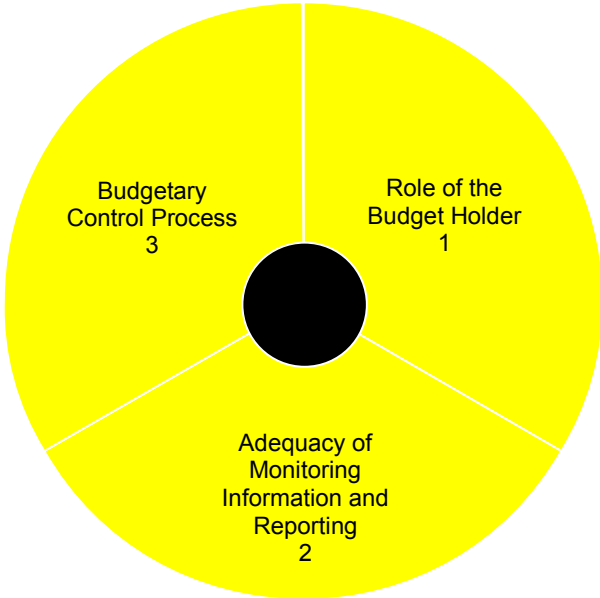
# Final Internal Audit Report 2017/18 – ECC 1718 COR03 Off-Payroll Engagements ('IR35 rules')

## 1. Executive Summary

<p><b>Function:</b> Corporate and Customer Services / Organisational Development and People</p> <p><b>Audit Sponsor:</b> Margaret Lee, Executive Director for Corporate and Customer Services / Pam Parkes, Director for Organisational Development and People</p> <p><b>Distribution List:</b> Margaret Lee; Pam Parkes; Emma Sayers, Head of Advice, Resourcing and Performance; Natalie Quickenden, Resourcing Manager; Nicole Wood, Director for Finance and Procurement; Melanie Evans, Head of Procurement; Laura Georgiou, Senior Payments Manager; Gavin Jones, Chief Executive; Cllr. Finch, Leader of the Council; Cllr. Barker, Cabinet Member for Customer and Corporate; Dan Cooke, External Audit</p> <p><b>Final Report Issued:</b> 22 May 2018</p> <p><b>Date of last review:</b> Not previously reviewed</p>	<p><b>Overall Opinion</b></p> <p><b>LIMITED ASSURANCE</b> </p> <hr/> <p><b>Direction of Travel</b></p> <p>N/A as no prior audits have been undertaken in this area</p>	<p><b>Number of Control Design Issues Identified</b></p> <p>0 Critical</p> <p>1 Major</p> <p>5 Moderate</p> <p>1 Low</p>	<p><b>Number of Control Operating in Practice Issues Identified</b></p> <p>0 Critical</p> <p>0 Major</p> <p>1 Moderate</p> <p>1 Low</p>	<p><b>Number of Recommendations</b></p> <p>9 Made</p> <p>0 Rejected</p> <p>N/A Critical Rejected</p> <p>0 Major Rejected</p>
<p><b>Scope of the Review and Limitations:</b></p>	<p>This audit assessed whether there are sufficient and consistently applied controls to:</p> <ul style="list-style-type: none"> <li>correctly determine whether engaged resources are to be treated as in or out of scope of the IR35 rules at the outset of the engagement ;and</li> <li>ensure there is evidenced assurance that the worker then works in a manner consistent with their in or out of scope assessment.</li> </ul> <p>This audit also assessed whether ECC has appropriate strategic direction on how to manage the impact of the IR35 rules and also exploit its opportunities.</p> <p><b>Limitation: Internal Audit itself did not form any judgement of whether specific engagements have been correctly determined as in or out of scope and did not undertake any testing to specifically conclude whether out of scope workers complied with that status in practice. The audit approach for these matters was to assess whether HR consistently used the HMRC online tool to determine the in or out of scope status and whether there were effective processes for HR to receive evidenced assurance that out of scope workers have operated in a manner consistent with that status.</b></p>			
<p><b>Critical and Major Findings and Recommendations</b></p> <p>The audit confirmed there are appropriate controls in the recruitment process to use the online HMRC assessment tool to determine the in or out of scope status of each relevant worker before the engagement starts.</p> <p>The audit's major priority recommendation is to further enhance processes around documenting and agreeing with all out of scope workers how the engagement will operate in practice specifically in regard to the IR35 criteria used by HMRC to determine workers' status.</p>	<p><b>Each risk area for this review is shown as a segment of the wheel. The key to the colours on the wheel is as follows:</b></p>  <ul style="list-style-type: none"> <li> Critical priority Control Design or Control Operating in Practice issues identified</li> <li> Major priority Control Design or Control Operating in Practice issues identified</li> <li> Moderate priority Control Design or Control Operating in Practice issues identified</li> <li> No / Minor Control Design or Control Operating in Practice Issues identified</li> </ul> <p>Page 51 of 72</p>			


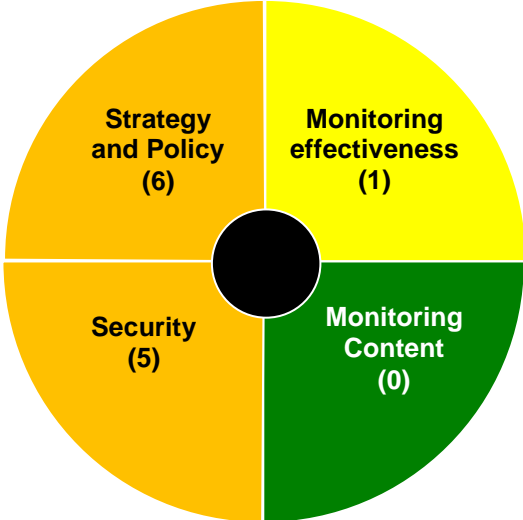




# Final Internal Audit Report 2017/18 – Budget Monitoring (KF3)

## 1. Executive Summary

<p><b>Function:</b> Corporate and Customer Services</p> <p><b>Audit Sponsor:</b> Nicole Wood – Director, Finance and Procurement</p> <p><b>Distribution List:</b> Nicole Wood; Tina French - Head of Strategic Finance and Insight; Christine Golding - Chief Accountant; Margaret Lee – Executive Director Corporate and Customer; Vernon Strowbridge – Head of Purchase to Pay and Income; Helen Gisby - Finance Systems and Processes Manager; Helen Chittock and Peter Sharples – Financial Controllers; Gavin Jones – Chief Executive; Councillor Finch – Leader of the Council; Councillor McKinlay – Cabinet Member for Finance, Commercial and Traded Services; Dan Cooke, EY (External Audit)</p> <p><b>Final Report Issued:</b> July 2018 <b>Date of last review:</b> March 2017</p>	<p><b>Overall Opinion</b></p> <p><b>LIMITED ASSURANCE</b> </p> <hr/> <p><b>Direction of Travel</b></p> <p>The control environment has deteriorated since our last audit. </p>	<p><b>Number of Control Design Issues Identified</b></p> <p>0 Critical 0 Major 1 Moderate 0 Low</p>	<p><b>Number of Control Operating in Practice Issues Identified</b></p> <p>0 Critical 0 Major 5 Moderate 0 Low</p>	<p><b>Number of Recommendations</b></p> <p>6 Made 1 Rejected N/A Critical Rejected N/A Major Rejected</p>
<p><b>Scope of the Review and Limitations:</b></p>	<p>The audit reviewed the high level mitigation of risks associated with budget monitoring. Budget setting and medium term financial planning are not included within the scope of this review.</p>			
<p><b>Critical and Major Findings and Recommendations</b></p> <p>There are no critical or major recommendations within this report.</p>	<p><b>Each risk area for this review is shown as a segment of the wheel. The key to the colours on the wheel is as follows:</b></p> <div style="display: flex; align-items: center;">  Critical priority Control Design or Control Operating in Practice issues identified   Major priority Control Design or Control Operating in Practice issues identified   Moderate priority Control Design or Control Operating in Practice issues identified   No / Minor Control Design or Control Operating in Practice Issues identified </div> 			


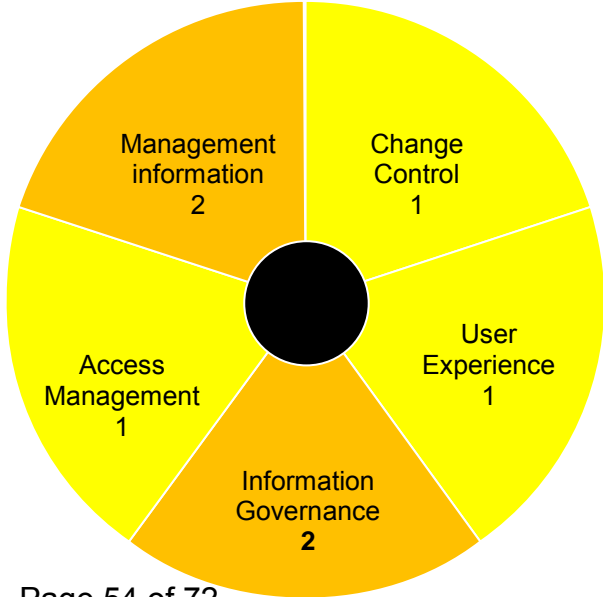




# Final Internal Audit Report 2017/18 – Social Media (COR04)

## 1. Executive Summary

<p><b>Function:</b> Corporate Development</p> <p><b>Audit Sponsor:</b> Richard Puleston, Director for Strategy, Insight and Engagement</p> <p><b>Distribution List:</b> Richard Puleston; Jason Kitcat, Executive Director for Corporate Development; Margaret Lee, Executive Director for Corporate and Customer Services; Andy Allsopp, Head of Profession: Communications and Marketing; Paul Turner, Director of Legal and Assurance, Joanna Boaler, Head of Democracy and Transparency; Karen Yates and Jessica Baldwin, Communications and Marketing Managers; Janet Tindall, Head of Payroll; Karen Earl, People Relations Consultant; Gavin Jones, Chief Executive; Cllr. Finch, Leader of the Council; Cllr. Barker, Cabinet Member for Corporate and Customer; Dan Cooke, External Audit</p> <p><b>Final Report Issued:</b> 22 June 2018</p> <p><b>Date of last review:</b> No previous coverage</p>	<p><b>Overall Opinion</b></p> <p><b>LIMITED ASSURANCE</b> </p> <p><b>Direction of Travel</b></p> <p>Not applicable as there has not been comparative previous coverage</p>	<p><b>Number of Control Design Issues Identified</b></p> <p><b>0</b> Critical</p> <p><b>2</b> Major</p> <p><b>6</b> Moderate</p> <p><b>0</b> Low</p>	<p><b>Number of Control Operating in Practice Issues Identified</b></p> <p><b>0</b> Critical</p> <p><b>1</b> Major</p> <p><b>2</b> Moderate</p> <p><b>1</b> Low</p>	<p><b>Number of Recommendations</b></p> <p><b>12</b> Made</p> <p><b>0</b> Rejected</p> <p><b>N/A</b> Critical Rejected</p> <p><b>0</b> Major Rejected</p>
<p><b>Scope of the Review and Limitations:</b></p>	<p>This audit assessed whether there was a clear policy framework to direct use of social media, effective processes to monitor online content and the outcomes of use of social media, and the arrangements to ensure social media accounts and the data therein are secure.</p> <p><b>Limitation:</b> this audit's scope does not include assessing the arrangements to comply with the Regulation of Investigatory Powers Act or the use of social media and web content for monitoring service users or staff for surveillance purposes in order to prevent or detect crime.</p>			
<p><b>Critical and Major Findings and Recommendations</b></p> <p>Major recommendations have been raised to further improve:</p> <ul style="list-style-type: none"> <li>awareness of the nature of any new types of activity through social media applications so information governance requirements are proactively identified and met</li> <li>password and security controls</li> <li>the movers and leavers process</li> </ul>	<p><b>Each risk area for this review is shown as a segment of the wheel. The key to the colours on the wheel is as follows:</b></p>  <ul style="list-style-type: none"> <li> Critical priority Control Design or Control Operating in Practice issues identified</li> <li> Major priority Control Design or Control Operating in Practice issues identified</li> <li> Moderate priority Control Design or Control Operating in Practice issues identified</li> <li> No / Minor Control Design or Control Operating in Practice Issues identified</li> </ul>			

# Final Internal Audit Report 2017/18 – Social Care Case Management System (C4)



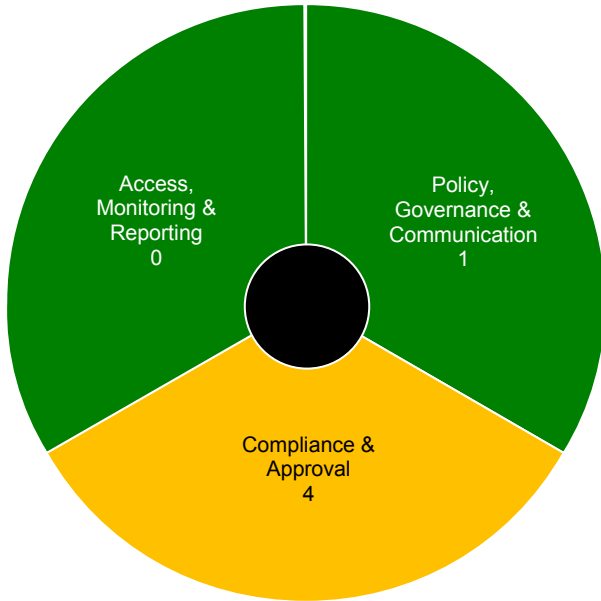




## 1. Executive Summary

<p><b>Function:</b> Children &amp; Families and Adult Social Care</p> <p><b>Audit Sponsor:</b> Helen Lincoln - Executive Director, Children, Families and Education</p> <p><b>Distribution List:</b> Helen Lincoln; Jason Kitcat, Executive Director Corporate Development; Nick Presmeg – Director, Adult Social Care; Sukriti Sen – Director Local Delivery, Children and Families; Simon Froud – Director Local Delivery, Adults; Tracey Kelsbie- Head of IS Delivery; Mark Adams- Wright- Director of Technology Operations; Paul Aldred- Commissioning Manager; Shaun Lancaster - Head of Operational Systems and Development; Joanna Boaler - Head of Democracy &amp; Transparency; Margaret Lee – Executive Director, Corporate and Customer; Melanie Evans – Head of Procurement; Chloe McSweeney –Head of Operational Systems &amp; Development; Chris Martin – Director Strategic Commissioning and Policy ; Gavin Jones, Chief Executive Officer; Cllr David Finch; Cllr John Spence; Cllr Dick Madden; Cllr Louise McKinlay; Dan Cooke, Ernst &amp; Young (External Audit)</p> <p><b>Final Report Issued:</b> June 2018</p> <p><b>Date of last review:</b> None</p>	<p><b>Overall Opinion</b></p> <p><b>LIMITED ASSURANCE</b> </p> <p><b>Direction of Travel</b></p> <p>There have been no prior audits in this area. N/A</p>	<p><b>Number of Control Design Issues Identified</b></p> <p>0 Critical</p> <p>2 Major</p> <p>3 Moderate</p> <p>0 Low</p>	<p><b>Number of Control Operating in Practice Issues Identified</b></p> <p>0 Critical</p> <p>1 Major</p> <p>1 Moderate</p> <p>0 Low</p>	<p><b>Number of Recommendations</b></p> <p>7 Made</p> <p>0 Rejected</p> <p>N/A Critical Rejected</p> <p>tbc Major Rejected</p>
<p><b>Scope of the Review and Limitations:</b></p>	<p>The audit reviewed controls over the Social Care Case Management System in relation to the risk areas identified below. Two separate reviews IT Operations: Back-ups (Audit Plan ref ICT5 1718) and IT Disaster Recovery (ICT8 1718) have been planned and therefore excluded from this audit. Contract management was not reviewed as this has been audited separately (COR05 1617).</p>			
<p><b>Critical and Major Findings and Recommendations</b></p> <p>There are three major recommendations within this report relating to Information Governance and Management information.</p>	<p><b>Each risk area for this review is shown as a segment of the wheel. The key to the colours on the wheel is as follows:</b></p>  <p>  Critical priority Control Design or Control Operating in Practice issues identified   Major priority Control Design or Control Operating in Practice issues identified   Moderate priority Control Design or Control Operating in Practice issues identified   No / Minor Control Design or Control Operating in Practice Issues identified         </p> <p>Page 54 of 72</p>			





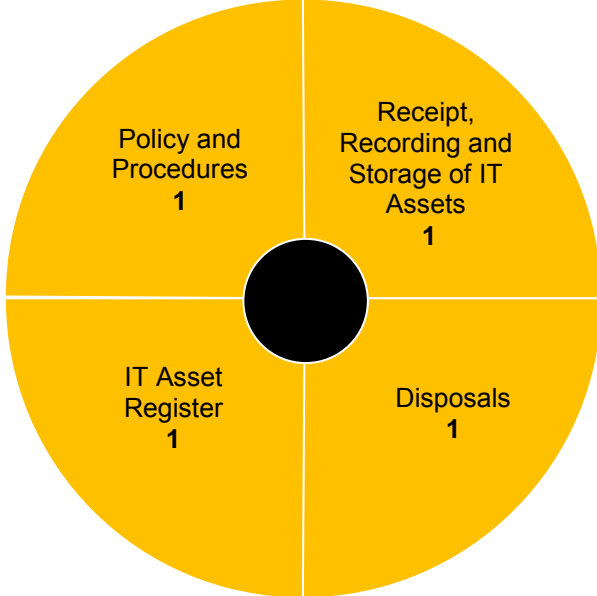




# Final Internal Audit Report 2017/18 – Declarations of Interest (Members and Officers) (COR2)

## 1. Executive Summary

<p><b>Function: Corporate and Customer Services / Organisation Development and People</b>  <b>Audit Sponsors:</b> Pam Parkes, Director Organisation, Development and People; Paul Turner, Director for Legal and Assurance and Monitoring Officer  <b>Distribution List:</b> Pam Parkes; Paul Turner; Margaret Lee, Executive Director for Corporate and Customer Services; Sam Tucker, Senior Resource Consultant; Joanna Boaler, Head of Democracy and Transparency; Dan Cooke, Ernst &amp; Young (External Audit); Cllr Louise McKinlay, Cabinet Member Financial, Commercial and Traded Services; Gavin Jones, Chief Executive Officer; Cllr David Finch, Leader of the Council  <b>Final Report Issued:</b> June 2018  <b>Date of last review:</b> August 2016</p>	<p><b>Overall Opinion</b></p> <p><b>LIMITED ASSURANCE</b> </p> <p><b>Direction of Travel</b></p> <p>Control environment has deteriorated since our prior audit </p>	<p><b>Number of Control Design Issues Identified</b></p> <p>0 Critical 1 Major 0 Moderate 0 Low</p>	<p><b>Number of Control Operating in Practice Issues Identified</b></p> <p>0 Critical 0 Major 3 Moderate 1 Low</p>	<p><b>Number of Recommendations</b></p> <p>5 Made 0 Rejected N/A Critical Rejected N/A Major Rejected</p>
<p><b>Scope of the Review and Limitations:</b></p>	<p>The audit focussed on compliance with policies and monitoring arrangements. The South East Local Enterprise Partnership declaration process was not included in this review as it is being audited separately (Audit Plan ref. ECC COR16 1718).</p>			
<p><b>Critical and Major Findings and Recommendations</b></p> <p>There is one major issue identified during this review relating to declaration of interests of interims, consultants and agency workers.</p>	<p><b>Each risk area for this review is shown as a segment of the wheel. The key to the colours on the wheel is as follows:</b></p>  <ul style="list-style-type: none"> <li> Critical priority Control Design or Control Operating in Practice issues identified</li> <li> Major priority Control Design or Control Operating in Practice issues identified</li> <li> Moderate priority Control Design or Control Operating in Practice issues identified</li> <li> No / Minor Control Design or Control Operating in Practice Issues identified</li> </ul>			


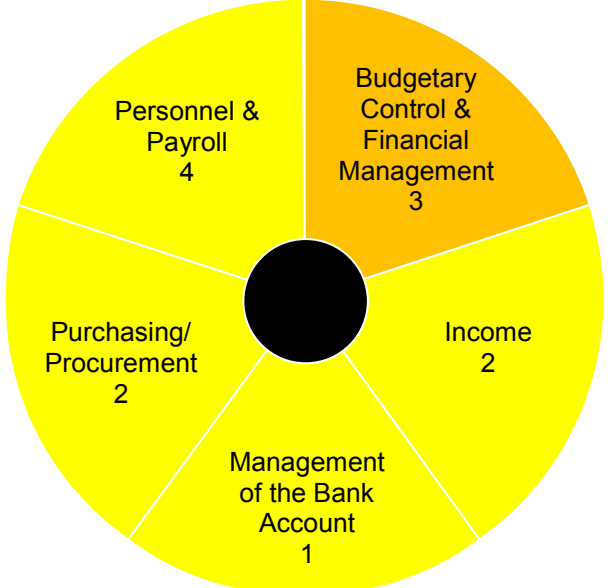




# Final Internal Audit Report 2017/18 – IT Asset Management (ICT4)

## 1. Executive Summary

<p><b>Function:</b> Corporate Development (TS)</p> <p><b>Audit Sponsor:</b> Mark Adams-Wright – Interim Director, Technology Services</p> <p><b>Distribution List:</b> Mark Adams-Wright; Jason Kitcat; Executive Director, Corporate Development; Tracey Kelsbie – Head of IS Service Delivery; Steph Wood, Senior Project Manager; Margaret Lee, Executive Director, Corporate &amp; Customer Services; Gavin Jones, Chief Executive; Cllr Finch, Leader of the Council; Cllr Barker, Cabinet Member, Customer &amp; Corporate, Dan Cooke, EY (External Audit)</p> <p><b>Final Report Issued:</b> June 2018</p> <p><b>Date of last review:</b> March 2017</p>	<p><b>Overall Opinion</b></p> <p><b>LIMITED ASSURANCE</b> </p> <hr/> <p><b>Direction of Travel</b></p> <p>Control environment has improved since our prior audit </p>	<p><b>Number of Control Design Issues Identified</b></p> <p>0 Critical</p> <p>1 Major</p> <p>0 Moderate</p> <p>0 Low</p>	<p><b>Number of Control Operating in Practice Issues Identified</b></p> <p>0 Critical</p> <p>3 Major</p> <p>0 Moderate</p> <p>0 Low</p>	<p><b>Number of Recommendations</b></p> <p>4 Made</p> <p>0 Rejected</p> <p>N/A Critical Rejected</p> <p>0 Major Rejected</p>
<p><b>Scope of the Review and Limitations:</b></p>	<p>The objective of this audit was to assess the adequacy of the control environment and provide assurance in relation to asset management policy and procedures; receipt, recording and storage of IT assets; asset disposal and the IT asset register.</p>			
<p><b>Critical and Major Findings and Recommendations:</b></p> <p>The previous audit report issued in March 2017 received a Limited Assurance opinion with three major priority recommendations made and agreed. These related to:</p> <ul style="list-style-type: none"> <li>- Maintaining an IT asset register</li> <li>- Oversight of assets</li> <li>- Decommissioning procedures</li> </ul> <p>The current audit identified that some improvements have been made since the previous audit e.g. the process for recovering assets. However, solutions have yet to be implemented which sufficiently mitigate the risks identified. It should be noted that since the previous audit, Technology Services has been subject to organisational redesign. In addition a third party contractor closely involved with the asset management process went into liquidation.</p>	<p><b>Each risk area for this review is shown as a segment of the wheel. The key to the colours on the wheel is as follows:</b></p>  <ul style="list-style-type: none"> <li> Critical priority Control Design or Control Operating in Practice issues identified</li> <li> Major priority Control Design or Control Operating in Practice issues identified</li> <li> Moderate priority Control Design or Control Operating in Practice issues identified</li> <li> No / Minor Control Design or Control Operating in Practice Issues identified</li> </ul>			



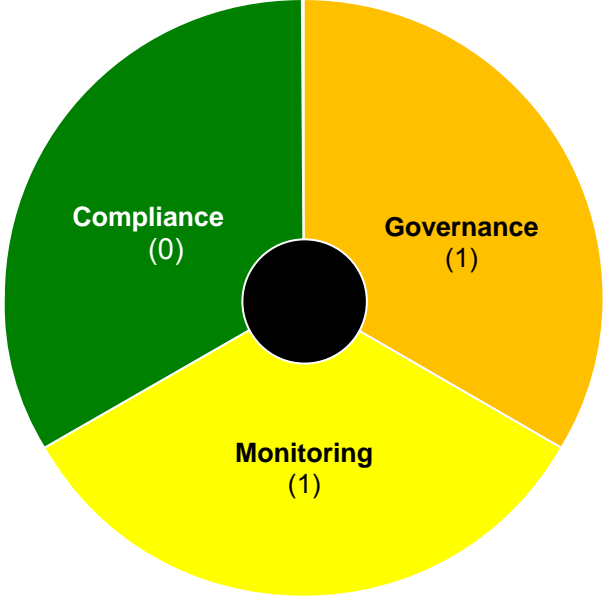





# Final Internal Audit Report 2018/19 – Engaines Primary and Nursery School (E103)

## 1. Executive Summary



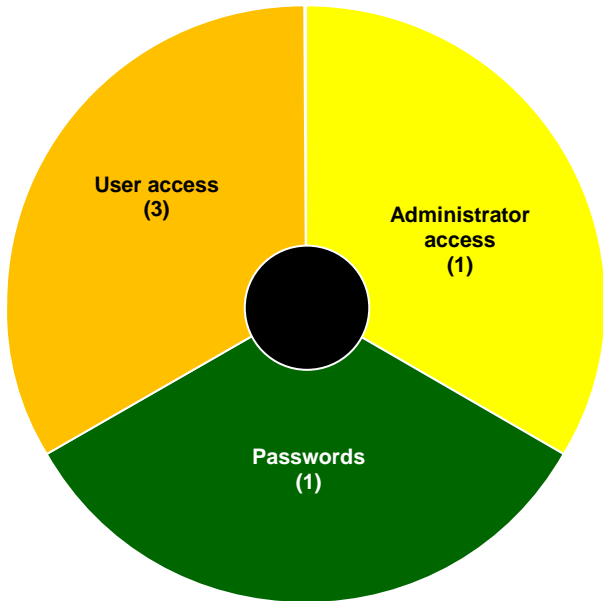
<p><b>Function:</b> Education</p> <p><b>Audit Sponsor:</b> Clare Kershaw, Director , Education</p> <p><b>Distribution List:</b> Clare Kershaw; Jackie Irwin, Headteacher; Colin Steele, Chair of Governors; Margaret Lee, Executive Director. Corporate &amp; Customer Services; Andrew Page, Head of Finance; Schools Finance Monitoring Team; Yannick Stupples-Whyley, Finance Business Partner; Jane Monaghan, Review Consultant; Cllr Ray Gooding, Cabinet Member for Education and Skills.</p> <p><b>Final Report Issued:</b> July 2018 <b>Date of last review:</b> September 2011</p>	<p><b>Overall Opinion</b></p> <p><b>LIMITED ASSURANCE</b> </p> <hr/> <p><b>Direction of Travel</b></p> <p>NA - the scope is not consistent with our prior audit</p>	<p><b>Number of Control Design Issues Identified</b></p> <p>① Critical</p> <p>① Major</p> <p>② Moderate</p> <p>① Low</p>	<p><b>Number of Control Operating in Practice Issues Identified</b></p> <p>① Critical</p> <p>② Major</p> <p>⑦ Moderate</p> <p>① Low</p>	<p><b>Number of Recommendations</b></p> <p><b>12</b> Made</p> <p><b>0</b> Rejected</p> <p><b>N/A</b> Critical Rejected</p> <p><b>0</b> Major Rejected</p>
<p><b>Scope of the Review and Limitations:</b></p>	<p>The overall objectives of the audit were to ensure that an adequate control framework is in place to manage or mitigate the school's financial, fraud and governance risks. The inventory was not tested. The register of business interests was not available for review.</p>			
<p><b>Critical and Major Findings and Recommendations</b></p> <p>There were 3 major findings and recommendations identified during this review.</p>	<p><b>Each risk area for this review is shown as a segment of the wheel. The key to the colours on the wheel is as follows:</b></p>  <p>  Critical priority Control Design or Control Operating in Practice issues identified   Major priority Control Design or Control Operating in Practice issues identified   Moderate priority Control Design or Control Operating in Practice issues identified   No / Minor Control Design or Control Operating in Practice Issues identified         </p>			

# Final Internal Audit Report 2017/18 – ECC Companies – Follow up (COR13)


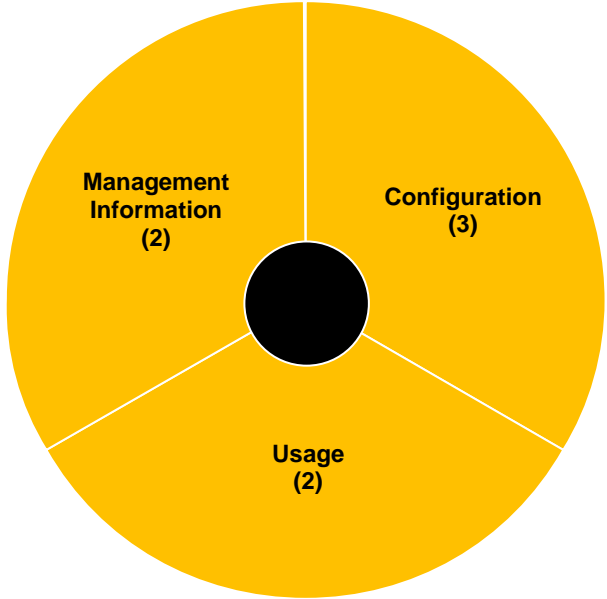




## 1. Executive Summary

<p><b>Function:</b> Corporate and Customer Services</p> <p><b>Audit Sponsor:</b> Paul Turner, Director, Legal and Assurance</p> <p><b>Distribution List:</b> Paul Turner, Margaret Lee, Executive Director, Corporate and Customer Services; Kim Cole, Principal Solicitor; Gavin Jones, Chief Executive; Cllr. McKinlay Cabinet Member for Finance, Commercial, and Traded Services; Cllr. Finch, Leader of the Council</p> <p><b>Final Report Issued:</b> August 2018</p> <p><b>Date of last review:</b> November 2016</p>	<p><b>Overall Opinion</b></p> <p><b>LIMITED ASSURANCE</b> </p> <p><b>Direction of Travel</b></p> <p>The control environment has improved since our previous audit, but remains at limited assurance. Although action has been taken to establish the recommended control framework, the framework has not existed for sufficient time to demonstrate it is now working consistently and effectively.</p> 	<p><b>Number of Control Design Issues remaining outstanding</b></p> <p><b>0</b> Critical</p> <p><b>0</b> Major</p> <p><b>0</b> Moderate</p> <p><b>0</b> Low</p>	<p><b>Number of Control Operating in Practice Issues remaining outstanding</b></p> <p><b>0</b> Critical</p> <p><b>1</b> Major</p> <p><b>1</b> Moderate</p> <p><b>0</b> Low</p>	<p><b>Total Number of Recommendations Outstanding</b></p> <p><b>2</b> Made</p> <p><b>0</b> Rejected</p> <p><b>N/A</b> Critical Rejected</p> <p><b>N/A</b> Major Rejected</p>
<p><b>Scope of the Review and Limitations:</b></p>	<p>This review assessed whether there was evidence that the actions recommended in the original Internal Audit report issued in November 2016 have been implemented and are now operating consistently as business as usual. This review therefore does not provide continued assurance on all controls in place to mitigate all the potential risks identified in our previous review.</p>			
<p><b>Summary findings and major issues and recommendations</b></p> <p>Progress has been made in establishing the control framework recommended in the original report. This been through the drafting, approving, and communicating of the Company Guidance and compiling of a register of all ECC companies.</p> <p>To fully implement the outstanding recommendations, the governance arrangements established by the Company Guidance need to be demonstrated as operating consistently.</p> <p>In summary, this follow-up concludes that:</p> <ul style="list-style-type: none"> <li>The major recommendation relating to the governance of ECC companies is partially implemented</li> <li>One moderate recommendation relating to the register of ECC companies is now implemented</li> <li>One moderate recommendation relating to monitoring of performance of ECC companies is partially implemented</li> </ul>	<p><b>Each risk area for this review is shown as a segment of the wheel. The key to the colours on the wheel is as follows:</b></p>  <ul style="list-style-type: none"> <li> Critical priority Control Design or Control Operating in Practice issues identified</li> <li> Major priority Control Design or Control Operating in Practice issues identified</li> <li> Moderate priority Control Design or Control Operating in Practice issues identified</li> <li> No / Minor Control Design or Control Operating in Practice Issues identified</li> <li> Not tested</li> </ul>			

## 1. Executive Summary

<p><b>Function:</b> Corporate Development</p> <p><b>Audit Sponsor:</b> Mark Adams-Wright – Interim Director of Technology Services</p> <p><b>Distribution List:</b> Mark Adams-Wright; Jason Kitcat, Executive Director for Corporate Development; Margaret Lee, Executive Director for Corporate and Customer Services; Tracey Kelsbie, Chief Operations Officer – Technology Services; Joanne Taylor, Service Delivery Manager, Paul Aldred, Service Delivery Manager; Kevin Newton, Team Manager; Chloe McSweeney, Head of Operational Systems and Development; Lauri Almond, Business Consultant Information Governance Operations; Gavin Jones, Chief Executive Officer; Cllr. Finch, Leader of the Council; Cllr. Barker, Cabinet Member for Corporate and Customer; Dan Cooke, External Audit</p> <p><b>Final Report Issued:</b> July 2018</p> <p><b>Date of last review:</b> March 2017</p>	<p><b>Overall Opinion</b></p> <p><b>Limited Assurance</b></p>  <p><b>Direction of Travel</b></p>  <p>The level of assurance is consistent with last year's audit opinion</p>	<p><b>Number of Control Design Issues Identified</b></p> <p>0 Critical</p> <p>1 Major</p> <p>0 Moderate</p> <p>0 Low</p>	<p><b>Number of Control Operating in Practice Issues Identified</b></p> <p>0 Critical</p> <p>2 Major</p> <p>1 Moderate</p> <p>1 Low</p>	<p><b>Number of Recommendations</b></p> <p>5 Made</p> <p>0 Rejected</p> <p>N/A Critical Rejected</p> <p>0 Major Rejected</p>
<p><b>Scope of the Review and Limitations:</b></p>	<p>This review assessed whether there are robust procedures in place to manage access to Mosaic (the social care case management system), Oracle (TCS – the financial management and HR management system), and Active Directory (AD). This assessment covered user creation and revocation for privileged and non-privileged system users, access review and password policy compliance.</p>			
<p><b>Major Findings and Recommendations:</b></p> <p>This review has identified that while there are the required access management policies and procedures, key controls in a number of areas did not operate consistently leading to three major findings.</p> <p>The major findings related to revoking user access, creating new users and periodically reviewing access.</p>	<p><b>Each risk area for this review is shown as a segment of the wheel. The key to the colours on the wheel is as follows:</b></p>  <p> <span style="color: red;">■</span> Critical priority Control Design or Control Operating in Practice issues identified  <span style="color: orange;">■</span> Major priority Control Design or Control Operating in Practice issues identified  <span style="color: yellow;">■</span> Moderate priority Control Design or Control Operating in Practice issues identified  <span style="color: green;">■</span> No / Minor Control Design or Control Operating in Practice Issues identified         </p>			

## 1. Executive Summary

<p><b>Function:</b> Organisational Development and People</p> <p><b>Audit Sponsor:</b> Pam Parkes, Director of Organisational Development and People</p> <p><b>Distribution List:</b> Pam Parkes; Margaret Lee, Executive Director for Corporate and Customer Services; Alexander Carlton, Head of People Insight and Technology; Janet Tindall, Head of Payroll; Alison Woods, Head of People Business Partners; Nicole Wood, Director for Finance and Procurement; Gavin Jones, Chief Executive Officer; Cllr. Finch, Leader of the Council; Cllr. Barker, Cabinet Member for Customer and Corporate; Dan Cooke, External Audit.</p> <p><b>Final Report Issued:</b> July 2018</p> <p><b>Date of last review:</b> N/A</p>	<p><b>Overall Opinion</b></p> <p><b>LIMITED ASSURANCE</b> </p> <p><b>Direction of Travel</b></p> <p>There has not been comparative previous coverage</p>	<p><b>Number of Control Design Issues Identified</b></p> <p>0 Critical</p> <p>2 Major</p> <p>2 Moderate</p> <p>1 Low</p>	<p><b>Number of Control Operating in Practice Issues Identified</b></p> <p>0 Critical</p> <p>1 Major</p> <p>1 Moderate</p> <p>0 Low</p>	<p><b>Number of Recommendations</b></p> <p>7 Made</p> <p>0 Rejected</p> <p>N/A Critical Rejected</p> <p>0 Major Rejected</p>
<p><b>Scope of the Review and Limitations:</b></p>	<p>This audit assessed whether absence is being consistently and correctly recorded and managed through TCS to ensure compliance with the requirements of absence-related policies and the legal requirements of ECC as an employer. The audit also assessed whether management understand, and are addressing, any known system or user issues to ensure the required benefits from the system are achieved</p>			
<p><b>Critical and Major Findings and Recommendations</b></p> <p>Major recommendations have been made in regard to ensuring there is more regular oversight of whether absences have been processed through TCS consistently and correctly.</p>	<p><b>Each risk area for this review is shown as a segment of the wheel. The key to the colours on the wheel is as follows:</b></p>  <ul style="list-style-type: none"> <li> Critical priority Control Design or Control Operating in Practice issues identified</li> <li> Major priority Control Design or Control Operating in Practice issues identified</li> <li> Moderate priority Control Design or Control Operating in Practice issues identified</li> <li> No / Minor Control Design or Control Operating in Practice Issues identified</li> </ul>			

## Overdue Critical and Major Internal Audit Recommendations as at 30 August 2018

Audit Review Title	Function	Recommendation	Latest Target Date	Last Status Update	Owner	Rating
IT Disaster Recovery (ICT11 1617)	Corporate Development	<b>Scope</b> Formally define recovery requirements for all critical services	31/12/17	<b>Update as at 29 June 2018:</b> As the update of 29/11/2017 refers, the addressing of this and the other recommendations made in the IT DR report is dependent upon the roll out of the Digital Foundations Programme. In March 2018 the Committee received an update from Technology Services on the progress addressing the recommendations which rated progress as either Red, Amber, or Green. The service's report rated progress as Amber or Green. The Digital Foundations Programme itself was refreshed via an approved Change Control Notice in May 2018.	Chief Operations Officer, Technology Services	Critical Risk
IT Disaster Recovery (ICT11 1617)	Corporate Development	<b>Capability</b> Understand the end to end recovery requirements for the IT service through identifying the direct and indirect critical dependencies with other IT services.	31/01/18	As above.	Chief Operations Officer, Technology Services	Critical Risk
IT Disaster Recovery (ICT11 1617)	Corporate Development	<b>Testing</b> Agree a test schedule with the Business Continuity programme for IT services.	31/01/18	As above.	Chief Operations Officer, Technology Services	Critical Risk
IT Disaster Recovery (ICT11 1617)	Corporate Development	<b>Governance</b> Establish an IT DR policy that aligns with the Business	28/02/18	As above.	Interim Director of Technology Services	Critical Risk



Audit Review Title	Function	Recommendation	Latest Target Date	Last Status Update	Owner	Rating
		Continuity (BC) policy and develop supporting frameworks				
IT Disaster Recovery (ICT11 1617)	Corporate Development	<b>Supplier Contracts Responsibilities</b> Ensure that suppliers have provisioned the correct level of ITDR and that it is in-line with ECC's BC requirements.	30/04/18	As above.	Interim Director of Technology Services	Critical Risk
Section 117 Funded Packages (FUR9 1516)	Adult Social Care	<b>S117 Register</b> Create a complete and accurate register of all service users receiving S117 after-care.	16/12/16	<p><b>Update as at 6 March 2018:</b> Essex Partnership University NHS Foundation Trust (EPUT) agreed to undertake quality checking on all Service Users whom ECC have, in any manner, recorded as S117 Exemption on their records. This amounted to over 800 Service Users. The process started in late 2017, the first tranche are due end of March 2018. Once all data has been cleansed and a definitive list provided by EPUT, all ECC records will be updated, and those Adults who are currently exempt from charges incorrectly will be financially assessed and then charged according to their assessed ability to pay. EPUT will then provide regular updates to the definitive list of S117 Exemtees. EPUT have also agreed in principle to find ways of reviewing the exemption status of all S117 Adults at least annually, but a viable way forward has yet to be demonstrated.</p> <p><b>Audit Comment:</b> This recommendation remains incomplete. It will however be tracked in future through the very recent EPUT Internal Audit review.</p>	Director for Local Delivery, Adult Operations	Major Risk
IT Performance & Oversight (ICT9 1617)	Corporate Development	<b>IT Security Reporting</b> Establish adequate reporting and oversight to	31/07/17	<p>No update provided.</p> <p><b>Audit Comment:</b> 15 requests for updates have been sent to the recommendation owner but none provided. The recommendation owner changed on 29 June 2018.</p>	Interim Director of Technology Services	Major Risk

Audit Review Title	Function	Recommendation	Latest Target Date	Last Status Update	Owner	Rating
		ensure that IT security is being governed effectively.				
Continuing Healthcare Funding (ASC7 1718)	Adult Social Care	<b>Recording on Mosaic</b> Introduce quality assurance checks to ensure that relevant details are recorded on Mosaic and that an adequate case record is maintained.	30/04/18	<b>Update as at 7 August 2018:</b> Managers currently using the available quality checking tools. The development of the revised practice guidance will support timely checking and clarity about responsibilities and timeframes. Confirmation of revised process for notification to ECC of CHC funding from CCG's is due for agreement in August 2018. ECC process under development to ensure more efficient practice following CCG notification to accurate recording on the finance system.	Director for Local Delivery, Adult Operations	Major Risk
Continuing Healthcare Funding (ASC7 1718)	Adult Social Care	<b>Progression of Checklists, Assessments and Eligibility Validation</b> Be transparent regarding delays in the assessment process which is variable across the quadrants and share best practice.	31/05/18	<b>Update as at 7 August 2018:</b> Review of practice guidance has been undertaken and a standard process has been developed to ensure workers identify potential CHC eligibility and are clear about processes for referral, timescales for decisions and where required escalation. In addition work is underway to refresh the wider S75 arrangements to ensure they are fit for purpose and reflect the new National Framework for Continuing Healthcare due for implementation later in the year.	Service Manager, Adult Social Care - Quality Assurance	Major Risk
IT Strategy Review (ICT8 1617)	Corporate Development	<b>Strategic Alignment / Governance – Communication Silos between IT and the Business</b> Implement a governance body to ensure that	30/06/18	<b>Update as at 11 January 2018:</b> An external resource is being brought in to Technology Services, reporting to the Director of Technology. This resource is being tasked with production of EA documentation, in partnership with other resources in Corporate Development (Digital directorate no longer exists). The DFP programme, as well as programmes around other key technologies (SCCM, TCS etc) are being reviewed and associated governance processes put in place. The overall approach to funding Technology investments is under review by the Executive Director for Corporate Services and the Director of Technology.	Chief Operations Officer, Technology Services	Major Risk

Audit Review Title	Function	Recommendation	Latest Target Date	Last Status Update	Owner	Rating
		business and IT delivery plans are aligned and supported by a mechanism for monitoring progress against these plans		<b>Audit Comment:</b> Recommendation owner changed in February 2018. Last update provided on 11 January 2018 by the previous recommendation owner.		
IT Strategy Review (ICT8 1617)	Corporate Development	<b>Strategic Alignment / Governance – Gaps in IT Strategy</b> Develop a RACI (Responsible, Accountable, Consulted and Informed) to identify and track accountabilities and responsibilities with respect to the IT strategy and supporting documents	30/06/18	<b>Update as at 11 January 2018:</b> The draft IT strategy will be reviewed in order to align to the emerging business plans, which are designed to deliver the Corporate Strategy. The Technology Services organisational redesign (OD) will need to input to the strategy, governance, and people plans, in line with the OD. Once in place, these will be taken to the organisation for appropriate approvals. However, principles defining and shaping the strategy have already been taken through the Design Authority.	Interim Director of Technology Services	Major Risk
Deprivation of Liberty (DoLS) (ASC6 1718)	Adult Social Care	<b>Timeliness of DoLS Decisions</b> Best endeavours need to be made to ensure DoLS assessments and decisions are progressed promptly and issued within the statutory	31/07/18	No updates provided.  <b>Audit Comment:</b> 8 monthly requests to the recommendation owner for updates but none provided.	Director, Safeguarding & Quality Assurance (Adult Social Care)	Major Risk

Audit Review Title	Function	Recommendation	Latest Target Date	Last Status Update	Owner	Rating
		timescales, in a cost efficient way, having regard to the financial budget available.				

<b>Report title:</b> Declaration of Interests	
<b>Report to:</b> Audit Governance and Standards Committee	
<b>Report author:</b> Paul Turner – Director, Legal and Assurance	
<b>Date:</b> 19 September 2018	<b>For:</b> Decision
<b>Enquiries to:</b> Paul Turner, Director, Legal and Assurance or Joanna Boaler, Head of Democracy and Transparency	
<b>County Divisions affected:</b> All Essex	

## 1. Purpose of Report

- 1.1 On 30 July the Committee decided to consult all members on a proposal to review the Code of Conduct for Members.
- 1.2 This report sets out the results of the consultation and asks the Committee to make a recommendation to Council.

## 2. Recommendations

- 2.1 That the Committee decides whether to recommend to Council that paragraphs 24.8.3 and 24.8.4 of the Code be amended to read as follows and that current 24.8.4 becomes 24.8.5:

*24.8.3 In addition you must withdraw from the room during the consideration of an item of business and must not participate in any debate or vote on that item of business if:*

- (a) you have a **Disclosable Pecuniary Interest** in that business; or*
- (b) you have a **Code interest** which is one that a member of the public with knowledge of the relevant facts would reasonably regard as so significant that it is likely to prejudice your judgement of the public interest.*

*24.8.4 Paragraph 24.8.3 does not apply where:*

- (a) A member has received a dispensation from the Monitoring Officer or the Audit, Governance and Standards Committee; or*
- (b) A meeting is operating to a procedure which would permit a member of the public to address the committee whether on the invitation of the Chairman or otherwise, but this exemption only applies for as long as the Member is either addressing the committee or answering questions asked by any member of the committee.*

### **3. Summary of issue**

3.1 The law about declarations of interest by Members is in the Localism Act 2011.

#### **(a) Disclosable Pecuniary Interests (DPIs)**

The law is that members who have a DPI must not vote or participate in the discussion or take any action in relation to the decision. The law says that members must leave the room if the Council's standing orders so require. ECC's Constitution requires members to leave the room if they cannot vote.

#### **(b) Code Interests**

The law leaves it to each local authority's code of conduct to decide whether and how Code Interests are created, although Ministry of Communities Housing and Local Government (MCHLG) guidance is that some types of interest (such as trade union membership) are created. At ECC we have introduced a type of interest called 'Code Interests'. If a member has a Code Interest which is 'so significant that a member of the public who knew the facts would think it was likely to prejudice the member's consideration of the public interest' then they must leave the room, but otherwise they may remain in the room and vote.

3.2 It will be seen that in all cases it is ECC which decides whether or not a member with an interest is permitted to remain in the room when an item is considered.

3.3 At present ECC requires all members to leave the room if they could not vote because of their interest. Whilst these rules are clear, they do not necessarily give the right flexibility and have created some practical issues. Sometimes a pragmatic interpretation has been called for, to allow a meeting to proceed, but this can leave members in an unclear position, feeling exposed and not all committees have necessarily taken the same approach.

3.4 In July 2018 this Committee decided to consult members on a proposal to amend the ECC Constitution and the Code of Conduct so that:

- a) Interested Members who would not be permitted to vote will continue to be required to leave the room for the duration of all discussion relating to that matter and be unable to vote.
- b) Members may nonetheless be present in the room for the part of that item of business if they are providing information to the committee and subsequently answering questions as part of the meeting as part of a procedure adopted by that committee at which a member of the public would also be allowed to take part.

3.5 The consultation took place during August 2018. We received 17 responses, including from the leaders of all four political groups. Fourteen responses were supportive and three were opposed to any change.

- 3.6 The leaders of the Conservative, Liberal Democrat and Non-Aligned Group supported the proposals, as did eleven other individual members. The leader of the Labour Group stated that he had consulted the majority of members of the Labour Group who wished to retain the current position. Two individual members took a similar approach, expressing the view that:
- Members may not feel able to express a view in the presence of an interested member – however under the proposal the interested member would be required to leave the room after their participation is over, meaning that there would be plenty of scope for a frank debate to take place.
  - Members may feel under pressure as to how they vote. However, the member would not be present during any vote.
- 3.7 Following the consultation the Committee now needs to decide on whether or not to make a recommendation to full Council to change the Code of Conduct. It appears that there is significant support for the proposals but there is also some opposition.

#### **4. Issues for consideration**

##### **4.1 Financial implications**

4.1.1 This report has no financial implications.

##### **4.2 Legal implications**

4.2.1 Any changes in the current rules would require constitutional change in order to implement them. Training and guidance would be needed for all members.

#### **5. Equality and Diversity implications**

- 5.1 The Public Sector Equality Duty applies to the Council when it makes decisions. The duty requires us to have regard to the need to:
- (a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act. In summary, the Act makes discrimination etc. on the grounds of a protected characteristic unlawful
  - (b) Advance equality of opportunity between people who share a protected characteristic and those who do not.
  - (c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.
- 5.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, marriage and civil partnership, race, religion or belief, gender, and sexual orientation. The Act states that 'marriage and civil partnership' is not a relevant protected characteristic for (b) or (c) although it is relevant for (a).



## *Declarations of Interests*

- 5.3 The proposals in this report will not have a disproportionately adverse impact on any people with a particular characteristic. They will apply to all members equally and there is no evidence that members with a particular protected characteristic are more likely to have to leave the room than others.

### **6. List of appendices**

None

### **7. List of Background papers**

Consultation responses

<b>Meeting</b>	<b>Topic</b>	<b>Author</b>	<b>Notes</b>
<b>10 Dec 2018</b>	<b>Internal Audit and Counter Fraud progress report</b>	Paula Clowes, Head of Assurance	
	<b>Counter Fraud Quality Assurance Review</b>	Paula Clowes, Head of Assurance	
	<b>Internal Audit Charter Annual Review</b>	Paula Clowes, Head of Assurance	

<b>Meeting</b>	<b>Topic</b>	<b>Author</b>	<b>Notes</b>
<b>25 March 2019</b>	<b>Annual Internal Audit and Counter Fraud Plan for 2019/20</b>	Paula Clowes, Head of Assurance	Annual report
	<b>Internal Audit and Counter Fraud progress report</b>	Paula Clowes, Head of Assurance	
	<b>External Audit Plan 2018/19</b>	From external auditors	
	<b>Arrangements for the closure of the 2017/18 Accounts</b>	Margaret Lee, Executive Director for Corporate and Customer Services and Christine Golding, Chief Accountant.	Annual report
	<b>Updating of Risk Management Strategy 2017-2021</b>	Paula Clowes, Head of Assurance	Annual report
	<b>Regulation of Investigatory Powers Act 2000 - review of activity on use of Directed Surveillance and Covert Human Intelligence Sources (CHIS)</b>	Paul Turner, Director, Legal and Assurance	Annual report

## Review of Register of Gifts and Hospitality Register

Paul Turner, Director,  
Legal and Assurance

Meeting	Topic	Author	Notes
3 June 2019	To Approve the Draft Statement of Accounts 2018/2019 and the Draft Annual Governance Statement	Margaret Lee, Executive Director for Corporate and Customer Services and Christine Golding, Chief Accountant.	Annual (draft) report
	Internal Audit and Counter Fraud Annual Report 2018/19	Paula Clowes, Head of Assurance	
Meeting	Topic	Author	Notes
29 July 2019	To Approve the Statement of Accounts 2018/2019 and the Annual Governance Statement	Margaret Lee, Executive Director for Corporate and Customer Services and Christine Golding, Chief Accountant.	Annual (final) report
	2018/2019 Audit Results Report for the Essex Pension Fund	Margaret Lee, Executive Director for Corporate and Customer Services	Annual report
	2018/2019 Audit Results Report for Essex County Council	Margaret Lee, Executive Director for Corporate and Customer Services	Annual report
Meeting	Topic	Author	Notes
16 September 2019	Internal Audit and Counter Fraud progress report	Paula Clowes, Head of Assurance	
	Annual Audit Letter – 2018/19	From external auditors	Annual report

To formally present the External Auditor's Annual Audit Letter for the year ending 31 March 2019.

Meeting	Topic	Author	Notes
9 December 2019	Internal Audit and Counter Fraud progress report	Paula Clowes, Head of Assurance	
	Internal Audit Charter Annual Review	Paula Clowes, Head of Assurance	Annual report
	Counter Fraud Anti Bribery Strategy	Paula Clowes, Head of Assurance	Bi-Annual review
	Anti Money Laundering Policy	Paula Clowes, Head of Assurance	Bi-Annual review