



Essex County Council

Audit, Governance and Standards Committee

10:30	Monday, 22 March 2021	Online Meeting
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The meeting will be open to the public via telephone or online. Details about this are on the next page. Please do not attend County Hall as no one connected with this meeting will be present.

For information about the meeting please ask for:

Andy Gribben, Senior Democratic Services Officer

Telephone: 033301 34565

Email: democratic.services@essex.gov.uk

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.

In accordance with the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020, this meeting will be held via online video conferencing.

Members of the public will be able to view and listen to any items on the agenda unless the Committee has resolved to exclude the press and public from the meeting as a result of the likely disclosure of exempt information as defined by Schedule 12A to the Local Government Act 1972.

How to take part in/watch the meeting:

Participants: (Officers and Members) will have received a personal email with their login details for the meeting. Contact the Democratic Services Officer if you have not received your login.

Members of the public:

Online:

You will need to visit the ECC Democracy YouTube Channel <https://tinyurl.com/yynr2tpd> where you will be able watch live or view the meeting at a later date.

Accessing Documents

If you have a need for documents in, large print, Braille, on disk or in alternative languages and easy read please contact the Democratic Services Officer before the meeting takes place. For further information about how you can access this meeting, contact the Democratic Services Officer.

The agenda is also available on the Essex County Council website, www.essex.gov.uk From the Home Page, click on 'Running the council', then on 'How decisions are made', then 'council meetings calendar'. Finally, select the relevant committee from the calendar of meetings.

Please note that an audio recording may be made of the meeting – at the start of the meeting the Chairman will confirm if all or part of the meeting is being recorded.

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2	Minutes and Matters Arising	7 - 10
	To approve as a correct record the minutes of the meeting held on 30 November 2020 and identify matters arising	
3	Update on Libraries Audit Recommendations	
	To receive an update relating to the Limited Assurance Libraries Stock Control Audit Review from Juliet Pirez, Head of Libraries, Essex County Council	
4	Update on Energy Invoices Audit Recommendations	
	To receive an update relating to the Limited Assurance Energy Invoices Audit Review from Paul Crick, Director for Performance, Investment and Delivery Place and Public Health, Essex County Council	

5	External Auditor's Annual Audit Letter 2019/20	11 - 23
	To receive report (AGS/01/21 and Appendix) from Nicole Wood, Executive Director, Finance and Technology and Christine Golding, Chief Accountant	
6	Arrangements for the Closure of the 2020-2021 Accounts	24 - 29
	To receive report (AGS/02/21) from Nicole Wood, Executive Director, Finance and Technology and Christine Golding, Chief Accountant	
7	2020-2021 External Audit Plans for Essex County Council and the Essex Pension Fund	30 - 105
	To receive report (AGS/03/21 and appendices 1 and 2) from Nicole Wood, Executive Director, Finance and Technology and Christine Golding, Chief Accountant	
8	Regulation of Investigatory Powers Act 2000 Review of Activity Feb 2021	106 - 108
	To receive a report (AGS/04/21) from Paul Turner, Director, Legal and Assurance	
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	To receive a report (AGS/05/21 and appendices 1 - 4) from Paula Clowes, Head of Assurance	
	Appendix 1 Executive Summary – Limited Assurance Report	
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	Appendix 3 Overdue Major Recommendations as at 1 March 2021	
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	To receive a report (AGS/06/21 and appendix) from Paula Clowes, Head of Assurance	
11	Approval of Annual Internal Audit and Counter Fraud Plan for 2021/22	132 - 161
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12	Audit Committee Effectiveness Review Annual Update	162 - 256
	To receive a report (AGS/08/21 and appendices 1 and 2) from Paul Turner, Director, Legal and Assurance	
13	LGA Model Code of Conduct	257 - 276
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14	Annual Review of Internal Audit Charter	277 - 287
	To receive a report (AGS/10/21 and appendix) from Paula Clowes, Head of Assurance	
15	Dates of Future Meetings	
	To note the meeting dates for the 2021 - 22 municipal year as set out below:	
	<ul style="list-style-type: none"> • previously agreed 7 June 2021 to be amended to 28 June 2021 • previously agreed 26 July 2021 to be cancelled • 27 September 2021 • 15 November 2021 • 17 January 2022 • 21 March 2022 	
16	Work Programme	288 - 291
	To receive a report (AGS/11/21) from Paul Turner, Director, Legal and Assurance	
17	Date of the Next Meeting	
	To note that the next scheduled meeting will be held on Monday 28 June 2021 at 10.30am at a venue yet to be determined or virtually via ZOOM (to be advised) and will be preceded by a private meeting for AGS members only	

Exempt Items

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

The following items of business have not been published on the grounds that they involve the likely disclosure of exempt information falling within Part I of Schedule 12A of the Local Government Act 1972. Members are asked to consider whether or not the

press and public should be excluded during the consideration of these items. If so it will be necessary for the meeting to pass a formal resolution:

That the press and public are excluded from the meeting during the consideration of the remaining items of business on the grounds that they involve the likely disclosure of exempt information falling within Schedule 12A to the Local Government Act 1972, the specific paragraph(s) of Schedule 12A engaged being set out in the report or appendix relating to that item of business.

Agenda item 1

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 G Butland	
Councillor P Channer	
Councillor A Davies	
Councillor A Hedley	Chairman
Councillor A Jackson	
Councillor R Mitchell	
Councillor R Moore	
Councillor M Platt	Vice-Chairman
Councillor K Smith	
Councillor A Turrell	
Mr Atta Ul Haque	Independent member (non-voting)

Minutes of the meeting of the Audit, Governance and Standards Committee, that was held remotely on Monday, 30 November 2020

[A YouTube recording of the meeting is to be found online.](#)

Present:

Members:

Councillor G Butland	
Councillor P Channer	
Councillor A Davies	
Councillor A Hedley	Chairman
Councillor A Jackson	
Councillor R Mitchell	
Councillor Dr R Moore	
Councillor M Platt	
Councillor A Turrell	
Mr Atta Ul Haque	Independent member appointed to the committee

Also Present:

Janine Combrink	BDO LLP (external auditor)
David Eagles	BDO LLP (external auditor)
Barry Pryke	BDO LLP (external auditor)

ECC Officers:

Samantha Andrews	Investment Manager (Essex Pension Fund)
Joanna Boaler	Head of Democracy and Transparency
Christine Golding	Chief Accountant
Andy Gribben	Senior Democratic Services Officer (clerk to the meeting)
Stephanie Mitchener	Director, Finance
Paul Turner	Director, Legal and Assurance (Monitoring Officer)

1. Welcome and Introduction

Councillor Hedley welcomed those attending the meeting of the Audit, Governance and Standards Committee.

2. Remote working

Councillor Hedley reminded everyone that although members are attending the meeting remotely, they should remain engaged in the meeting, refrain from responding to emails and texts during the meeting and put all devices on silent mode.

Members were reminded to keep their microphone on mute for the duration of the meeting unless they wished to speak and to address all remarks through the Chairman.

Councillor Hedley also informed members that the meeting was to be broadcast live over the internet and would then be publicly available on the County Council's website and on YouTube after the meeting. More details were set out in the agenda. He also asked those persons watching via YouTube that if they chose to utilise the subtitle function the Council could not accept responsibility for their accuracy.

3. 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 as shown in the report,
2. Apologies had been received from Councillor Smith
3. there were no declarations of interests.

The Chairman, Councillor Hedley reminded members that any interests must be declared during the meeting if the need to do so arose.

4. Minutes and Matters Arising

The minutes of the meeting held on Monday 16 November 2020 were approved as a correct record and signed by the Chairman.

5. 2019/20 Audit Completion Report for Essex County Council

The committee received report AGS/88/20 and Appendix from Nicole Wood, Executive Director, Finance and Technology and presented by Christine Golding, Chief Accountant. The report summarised the external auditor's 2019/20 Audit Completion Report for the Council which, at the time of writing the report, was nearing completion. The report included the messages arising from the audit of the Council's financial statements and the results of the work undertaken to assess its arrangements to secure value for money in the use of resources.

Members of the committee asked questions of Christine Golding and David Eagles of BDO LLP, the Council's external auditors. The questions asked and the responses may be found online on the [YouTube recording of the meeting](#).

Resolved:

The report was noted.

6. 2019/20 Audit Completion Report for the Essex Pension Fund

The committee received report AGS/89/20 and appendix from Nicole Wood, Executive Director, Finance and Technology and Samantha Andrews, Investment Manager (Essex Pension Fund) and presented by Christine Golding, Chief Accountant. The report summarised the external auditor's 2019/20 Audit Completion Report for the Essex Pension Fund. It included the messages arising from the external audit of the Essex Pension Fund's financial statements.

Members of the committee asked questions of Christine Golding and David Eagles of BDO LLP, the Council's external auditors. The questions asked and the responses may be found online on the [YouTube recording of the meeting](#).

Resolved:

The report was noted.

7. 2019/2020 Statement of Accounts

The committee received report AGS/90/20 and appendix from Nicole Wood, Executive Director, Finance and Technology and presented by Christine Golding, Chief Accountant.

The report explained the role of the Audit, Governance and Standards Committee in relation to approval of the 2019/20 Statement of Accounts; considered the matters raised in the External Auditor's 'Audit Completion Reports' (presented elsewhere on the Agenda) in relation to the audit of the Council's accounts for 2019/20 and those for the Essex Pension Fund; presented an updated draft of the Council's 2019/20 Statement of Accounts, which has been amended to address matters arising during the 'final accounts audit' carried out by BDO LLP and presented an updated draft of the Council's 2019/20 Annual Governance Statement.

Members of the committee asked questions of Christine Golding and David Eagles of BDO LLP, the Council's external auditors. The questions asked and the responses may be found online on the [YouTube recording of the meeting](#).

Resolved:

The Committee

- i. Noted the matters raised in the External Auditor's 'Audit Completion Reports' (presented elsewhere on the Agenda);
- ii. Agreed not to adjust the 2019/20 Statement of Accounts for the non-material unadjusted misstatements and unadjusted disclosure omissions and improvements identified within the Audit Completion Reports for the Council and Pension Fund;

- iii. Approved the updated draft of the 2019/20 Annual Governance Statement, which is included in the Statement of Accounts document (pages 201 to 222 of Appendix A);
- iv. Approved the updated draft of the 2019/20 Statement of Accounts (attached as Appendix A to the report); and
- v. Noted the representations that the Executive Director for Finance and Technology and Chairman of the Committee will make on behalf of the Council and the Essex Pension Fund (as set out within the Letters of Representation appended to the Audit Completion Reports for the Council and the Essex Pension Fund, which were presented elsewhere on the Agenda).

8. Work Programme

The committee received report AGS/91/20 presented by the Director, Legal and Assurance that detailed the planned ongoing programme of work.

Members were reminded that the work programme was subject to regular revisions and change.

Resolved

The report was noted.

9. Date of the Next Meeting

The committee noted that the next scheduled meeting would be held on Monday 22 March 2021 at 10.30am virtually via ZOOM (to be advised) and would be preceded by a private meeting for AGS members only.

10. Dates of Future Meetings

The committee noted that the meeting dates for the 2021 - 22 municipal year were scheduled to be 7 June, 26 July, 27 September and 15 November 2021 and 17 January 2022

Chairman

Agenda item 5
AGS/01/21

Report title: Annual Audit Letter for year ending 31 March 2020	
Report to: Audit, Governance and Standards Committee	
Report author: Nicole Wood, Executive Director, Finance and Technology	
Date of meeting: 22 March 2021	For Approval
Enquiries to Nicole Wood, Executive Director, Finance and Technology email nicole.wood@essex.gov.uk Tel. 07946 705816 or Christine Golding, Chief Accountant email christine.golding@essex.gov.uk Tel. 03330 138401	
Divisions affected All Essex	

1. Purpose of report

- 1.1 The purpose of this report is to present the External Auditor's Annual Audit Letter for the year ending 31 March 2020 to the Committee.

2. Recommendations

- 2.1 That the Committee notes the report and refers it to the next available meeting of the full Council.

3. Background and proposals

- 3.1 The detailed findings from the audit work performed by BDO LLP in relation to the audit of accounts for the year ending 31 March 2020 were reported to the Committee on 30 November 2020 (when the Committee approved the 2019/20 Statement of Accounts).
- 3.2 The purpose of BDO LLP's Annual Audit Letter (as appended) is to communicate the key issues arising from their audit work for 2019/20 to Members, and to other key stakeholders.
- 3.3 The Annual Audit Letter summarises the conclusions from the external audit work related to 2019/20, including that:
- i. Unmodified opinions** were issued in relation to the Council's financial statements and those of the Essex Pension Fund, meaning that BDO consider that the financial statements:
- Gave a true and fair view of the financial position of the Council and the Essex Pension Fund as at 31 March 2020, and of the expenditure and income for the year then ended.

- Were properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2019/20.
 - ii. An **unmodified conclusion** was issued on the Council’s arrangements for securing economy, efficiency and effectiveness in the use of resources, which means that BDO consider that in all significant respects, the Council had proper arrangements in place to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.
- 3.4 At the time of writing this report, BDO had not yet issued the Audit Certificate for 2019/20, as work to review the Council’s Whole of Government Accounts (WGA) return for 2019/20 was ongoing. The review of the Council’s WGA return is largely complete but, due to issues with the HM Treasury template, BDO have been unable to finalise their work.

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 2019/20. 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 The Committee is required to consider the annual audit letter and may make recommendations if it so wishes.

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 2020.

10. List of Background Papers

10.1 None.



ESSEX COUNTY COUNCIL AND ESSEX PENSION FUND

Annual Audit Letter

Year ended 31 March 2020

EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

This Annual Audit Letter summarises the key matters arising from the work that we have carried out in respect of the year ended 31 March 2020.

It is addressed to the Council but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public.

Responsibilities of auditors and the Council

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

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

- Our opinion on the Council's and Pension Fund's financial statements; and
- Whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

BDO LLP

5 March 2021

Audit conclusions

Audit area	Conclusion
Financial statements - Council	Unmodified opinion
Financial statements - Pension Fund	Unmodified opinion
Use of resources	Unmodified conclusion
Audit certificate	We are unable to issue our audit certificate until we have completed our review of the Whole of Government Accounts return and issued our opinion on the consistency of the return with the audited financial statements.

We issued our audit opinion on the financial statements and use of resources conclusion on 30 November 2020

FINANCIAL STATEMENTS

Audit opinion on the financial statements

We issued an unmodified audit opinion on the financial statements. This means that we consider that the financial statements:

- Give a true and fair view of the financial position and its income and expenditure for the year; and
- Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2019/20.

Final materiality

Materiality for the Council's financial statements was calculated at £37.3 million based on a benchmark of 1.75% of gross expenditure.

Materiality for the Pension Fund financial statements was calculated at £66 million based on 1% of net assets. Specific materiality (at a lower level) was set for the fund account balances (excluding changes in the market value of investments) at £25 million and this was based on 7.5% of gross expenses in the Fund Account.

Material audit differences

Our audit identified the following material differences in the Council's financial statements:

- Bank accounts in an overdraft position at both 31 March 2020 and 31 March 2019 were shown net against cash and cash equivalents on the face of the balance sheet. These bank accounts should have been shown gross as current liabilities.

- Cash outflows associated with revenue expenditure funded from capital under statute (REFCUS) were classified as investing activities in both 2018/19 and 2019/20. These cash flows should have been shown as operating activities.
- Cash inflows and outflows associated with purchases of and proceeds from investments were shown net in Note 28 Cash flows from operating, investing and financing activities for both 2018/19 and 2019/20. These cash flows should have been shown gross.

Management amended the financial statements for these audit differences. There was no impact on the total value of the cash balances held by the Council.

No material audit differences were identified in the Pension Fund's financial statements

Unadjusted audit differences

We identified two audit adjustments in the Council's financial statements that, if posted, would reduce the deficit on the provision of services for the year by £2.195 million.

We identified two audit adjustments in the Pension Fund's financial statements that, if posted, would increase the 'Net decrease in the assets available for benefits during the year' in the Fund Account and decrease 'Net assets of the scheme available to fund benefits' in the Net Asset Statement by £19.123 million.

No adjustment was made for the above differences as they were considered to be immaterial in the context of the financial statements as a whole.

FINANCIAL STATEMENTS

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

Risk description	How the risk was addressed by our audit	Results
<p>Management override of controls (Council and Pension Fund)</p>	<p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none"> • Reviewed and verified journal entries made in the year, agreeing the journals to supporting documentation. We determined key risk characteristics to filter the population of journals. • Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias; and • Reviewed unadjusted audit differences for indications of bias or deliberate misstatement. 	<p>No issues were identified by our audit of journals and accounting estimates for management override of controls or management bias.</p>
<p>Revenue and expenditure recognition (Council only)</p>	<p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none"> • Tested a sample of grants recognised as revenue to documentation from grant paying bodies and check whether recognition criteria had been met; and • Tested a sample of expenditure either side of year end, to confirm that expenditure had been recorded in the correct period and that all expenditure that should have been recorded at year end had been. 	<p>No issues were identified by our audit of revenue and expenditure recognition.</p>

FINANCIAL STATEMENTS

Risk description	How the risk was addressed by our audit	Results
Valuation of pension liability (Council and Pension Fund)	<p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none"> • Agreed the disclosures to the information provided by the pension fund actuary; • Reviewed the competence of the management expert (actuary); • Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data; • Reviewed the controls in place for providing accurate membership data to the actuary; • Tested a sample of membership and cash flow data sent to the actuary for existence and accuracy, and reconciled the membership data sent to the actuary to the membership administration system for completeness; • Checked that any significant changes in membership data were communicated to the actuary. 	<p>We were able to agree disclosures to information provided by the actuary and are satisfied that the assumptions used in the calculation of the liability were within the expected ranges.</p> <p>In respect of cash flow data provided to the actuary for the triennial valuation, we identified no issues. However, testing of the cash flow data provided to the actuary for the roll forward valuation at 31 March 2020 identified some differences between the estimated contributions (based on month 10 actual amounts plus estimated amounts for the final two months of the year) and the actual amounts for the year. We did not consider these to be significant differences that would materially impact on the liability valuation.</p> <p>Following the ruling on age discrimination on the McCloud case and gender discrimination on a Lloyds case in the prior year, the actuary made an allowance at the last accounting date. This was therefore included in the opening liability for this year and the actuary confirmed that this allowance was re-measured 31 March 2020. The approach adopted by the actuary is considered to be reasonable.</p>

FINANCIAL STATEMENTS

Risk description	How the risk was addressed by our audit	Results
Valuation of land, buildings and investment properties (Council only)	<p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none"> Reviewed the instructions provided to the valuer and the valuer's skills and expertise in order to determine if we can rely on the management expert; Confirmed that the basis of valuation for assets valued in year was appropriate based on their usage; Reviewed accuracy and completeness of information provided to the valuer, such as rental agreements and sizes; Reviewed assumptions used by the valuer and movements against relevant indices for similar classes of assets; Followed up valuation movements that appear unusual; and Confirmed that assets not specifically valued in the year were assessed to ensure their reported values remained materially correct. 	<p>We found that the indexation applied to specialised assets not subject to full revaluation in 2019/20 was outside of our expectations. The Council performed further work (which we reviewed as part of our audit procedures) and concluded that the value of land and buildings recognised in the balance sheet was understated. The maximum value of the error arising from this issue was an £18.250 million understatement of the value of land and buildings.</p> <p>No adjustment was made to the financial statements for this matter as neither the Council nor BDO considered it to be material.</p> <p>This error had no impact on the Council's general fund or the resources available to fund services.</p> <p>No other issues were identified by our audit.</p>

FINANCIAL STATEMENTS

Risk description	How the risk was addressed by our audit	Results
Valuation of investments (unquoted and direct property investments) (Pension Fund only)	<p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none"> • Obtained direct confirmation of investment valuations from the fund managers and requested copies of the audited financial statements (and member allocations) from the fund; • Reviewed the valuation completed by the fund manager and any significant assumptions made in the valuation; • For property valuations, we agreed input data used by the valuer such as agreeing rental information to the underlying rental agreements, and reviewed the rental yields against the comparable data and indices for reasonableness; • Where the financial statement date supporting the valuation is not conterminous with the pension fund's year end, we confirmed that appropriate adjustments have been made to the valuations in respect of additional contributions and distributions with the funds; and • Checked whether the investments have been correctly valued in accordance with the relevant accounting policies 	<p>Our review of direct confirmations obtained from fund managers found that the valuation of private equity was overstated by a non material amount of £3.621 million, with a total overstatement of investments of £5.239 million across all categories of investments.</p> <p>We also reviewed reasonableness of the adjustments made to private equity valuations to account for the impact of Covid-19. Our procedures identified that the reductions applied to reflect the impact of Covid-19 were not consistent with our expectations resulting in the value of private equity investments being overstated by £13.884 million.</p> <p>No adjustment was made to the financial statements for this matter as neither the Pension Fund nor BDO considered it to be material.</p>

USE OF RESOURCES

Audit conclusion on use of resources

We issued an unmodified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. This means that we consider that in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people

We set out below the risks that had the greatest effect on our audit strategy:

Risk description	How the risk was addressed by our audit	Results
The Council will need to deliver significant savings to maintain financial sustainability in the medium term and there is a risk that some required savings may not be delivered.	<p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none">Reviewed the financial outturn for 2019/20 and progress against the 2020/21 budget, as a starting point for assessing the effectiveness of financial management arrangements;Considered the reasonableness of the medium term resourcing strategy assumptions, including investment costs associated with major savings schemes and capital projects; andReviewed arrangements to identify savings, including any relevant Internal Audit work, evidence underpinning a sample of identified savings schemes, and progress towards identifying further savings to balance the budget in the medium term.	<p>The Council has adequate arrangements for business planning, budget setting, monitoring and taking mitigating actions to eliminate the impact of any overspends and undeliverable savings. It has retained its track record of delivering underspends in the General Fund in 2019/20 and is expected to deliver the majority of its savings for 2020/21.</p> <p>The Council's medium term resourcing strategy reflects known savings and cost pressures and the key assumptions are reasonable, although there is significant uncertainty in future funding levels. The strategy indicated unidentified savings gaps of £71 million by the end of 2023/24. This gap is expected to increase as a result of council tax and business rate funding decreases during the Covid-19 pandemic.</p> <p>If no further savings are made in 2021/22 to 2024/25 above those already identified, we understand that the Council would have sufficient reserves to cover this shortfall in the medium term, if necessary, and maintain its general fund balance at 6% of the net budget.</p> <p>The financial position remains challenging and the Council will not have sufficient reserves to cover its cumulative savings requirement by the end of the 2024/25 period if it does not continue to demonstrate strong leadership and action in achieving the planned savings. However, we are satisfied that the Council has adequate arrangements in place to remain financially sustainable in the medium term.</p>

REPORTS ISSUED AND FEES

Fees summary

	2019/20 Final £	2019/20 Planned £	2018/19 Final £
Council			
Code audit fee	(1) 137,620	(1) 137,620	126,265
Non-audit assurance services:			
Fees for reporting on government grants:			
• Teachers' pensions return	12,000	12,000	12,000
Total fees - Council	149,620	149,620	138,265

Pension Fund

Code audit fee	(2) 28,000	(2) 28,000	24,075
Additional fee for IAS19 assurance requests from scheduled bodies	(3) 12,250	(3) 11,500	5,500
Total fees - Pension Fund	40,250	39,500	29,575

Communication

Reports	Date	To whom
Audit plan	6 March 2020	Audit, Governance and Standards Committee
Audit progress report	28 September 2020	Audit, Governance and Standards Committee
	16 November 2020	
Audit completion report	30 November 2020	Audit, Governance and Standards Committee

(1) The increase in the Council's code audit fee reflects the increased expectations relating to the work necessary to audit valuations of non-current assets, pension liabilities and group accounts and risk related work in respect of the disposal of Essex Education Services and termination of the Tending PPP.

(2) The increase in the Pension Fund code audit fee reflects the increased expectations relating to the work necessary to audit valuations of pension investments (particularly unquoted and direct property investments) and the fund liability applied nationally.

(3) The increased Pension Fund assurance requests fee represents the work necessary in 2019/20 to audit the data cleansing work undertaken by the actuary in connection with the triennial valuation of the pension fund liability (and asset allocations). This element is only relevant in the year of triennial valuation and will not recur until the next triennial valuation (i.e. 2022/23). The increase in actual fee from the planned fee is due to a request received from an additional body.



FOR MORE INFORMATION:

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the company and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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Report title: Closure of Accounts 2020/21	
Report to: Audit, Governance and Standards Committee	
Report author: Nicole Wood, Executive Director, Finance and Technology	
Date of meeting: 22 March 2021	For: Approval
Enquiries to: Nicole Wood, Executive Director, Finance and Technology email nicole.wood@essex.gov.uk Tel. 07946 705816 or Christine Golding, Chief Accountant email christine.golding@essex.gov.uk Tel. 03330 138401	
Divisions affected All Essex	

1. Purpose of report

- 1.1 The purpose of this report is to provide the Committee with an overview of the activities and arrangements in place for closure of the Council's 2020/21 accounts, and for production and approval of the Statement of Accounts.

2. Recommendations

- 2.1 The Committee notes the arrangements in place for closure and approval of the Council's Accounts for 2020/21.
- 2.2 The Committee agrees, as a consequence of changes to the statutory timetable for production and publication of the 2020/21 Statement of Accounts, to:
- Cancel the meetings it currently has scheduled for **7 June** and **26 July 2021**.
 - Schedule a new meeting on **28 June 2021** to receive the draft Statement of Accounts for 2020/21.
 - Note the intention to now present the 2020/21 Statement of Accounts to the Committee for approval on **27 September 2021**.

3. Background

- 3.1 The process of closing the Accounts, and of producing the information required to enable the external auditor to give an unqualified opinion on the accounts, is both complex and time constrained.

- 3.2 This is because the Council is required to prepare its annual accounts in compliance with generally accepted accounting practice and to specified timelines. These requirements are articulated in the **Accounts and Audit Regulations 2015**.
- 3.3 The Government issued a light touch consultation on the Accounts and Audit Regulations 2015 on **9 February 2021**, seeking views on proposals to amend the deadlines for the 2020/21 and 2021/21 Accounts, as follows:
- Publication of draft accounts for inspection extended from 31 May to **31 July**.
 - Publication of final accounts extended from 31 July to **30 September** (in line with the recommendations of the Redmond Review).

The consultation closed on **1 March 2021**.

- 3.4 The proposed amendments to the Accounts and Audit Regulations 2015 were laid before Parliament on **9 March 2021** and come into force on 31 March 2021. As a consequence of the changes to the statutory deadlines, it is intended to:
- Defer publication of the draft accounts for 2020/21 from 31 May to **30 June 2021**.
 - Plan for completion of the 2020/21 audit on or by **30 September 2021**.

It will be necessary to reschedule the June meeting of the Committee (from 7 June 2021 to **28 June 2021**) and to cancel the **26 July 2021** meeting as a consequence of these changes.

- 3.5 The following paragraphs explain the arrangements in place for producing the 2020/21 Accounts on the basis that this activity will now be completed by **30 June 2021**.

4. Arrangements for closure of the 2020/21 Accounts

- 4.1 There are several key strands of activity necessary to close the accounts:
- Activities necessary to derive the revenue and capital '**provisional outturn**' positions for Cabinet Members' portfolios, and to assess the impact of those positions on the Council's reserves, balances and capital financing resources.
 - **Technical accounting activity** necessary to ensure compliance with generally accepted accounting practice.
 - Activities necessary to produce **consolidated Group Accounts** (i.e. accounts which consolidate the Council's own position with that of its local authority trading companies).

The following paragraphs provide an overview of these key strands of activity and the deadlines we are working to this year.

Determining the Provisional Outturn position

- 4.2 The activities necessary to determine the revenue and capital outturn positions are primarily focussed on determining whether income and expenditure should be recognised in the accounts for this year, or a later year. This is because the Council is obliged to reflect income and expenditure in the accounts in the year in which the effects of the expenditure and income are experienced, even if the cash is received or paid in the preceding or subsequent financial year.
- 4.3 Significant input is required from budget holders to complete this activity. Specifically, budget holders are required to identify any:
- Income earned but not received at 31 March 2021.
 - Expenses incurred but not yet paid at 31 March 2021.
 - Any amounts already received/paid that relate to goods or services to be provided or received after 31 March 2021.
 - Any amount that may need to be paid to settle an obligation that exists at 31 March 2021, but the requirement to make this payment is uncertain.

Budget holders are required to submit this information via a Web Based Tool during the period **30 March** to **7 April**, although the Tool will be available before **30 March**, to enable budget holders to start work on their returns prior to the submission deadline. Guidance has been issued, and a series of communications are planned in the run up to the **7 April** deadline, to ensure that budget holders are aware of what is expected from them.

- 4.4 Finance will process budget holder returns, and action any other accounting entries necessary to finalise services' outturn positions, by **22 April**.
- 4.5 Work will then commence on validating the provisional outturn position and on assessing the impact this has on the Council's reserves and balances.

Technical accounting activity

- 4.6 The main closure activities necessary to ensure compliance with generally accepted accounting practice are summarised as follows:
- Account for the consumption, revaluation and acquisition and disposal of the Council's Property, Plant and Equipment assets.
 - Restate payments made under PFI and lease contracts to separate the amounts paid for use of the assets from the amounts related to services provided under these contracts.
 - Account for the Council's share of Collection Fund surpluses / deficits and its share of the end of year balances in respect of Council Tax and Non-Domestic Rates relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments.
 - Replace employer's pension contributions with the cost of providing retirement benefits, based on information provided by the Pension Fund Actuary.

- 4.7 Statutory regulations permit / require the effect of these entries to be mitigated, ensuring that none of these adjustments impact on the Council's General Fund balance or other usable reserves.
- 4.8 Most of this work will be finalised during May 2021.

Group Accounts

- 4.9 In addition to the activities outlined above, which form the basis of entries within the Council's 'single entity' accounts, the Council is also required to produce 'group accounts'. The Group Accounts consolidate the Council's own accounts with those of its larger local trading companies, with transactions between the entities being eliminated on consolidation.
- 4.10 In previous years, the only entity included within the Council's Group Accounts was Essex Cares Ltd. From 2020/21, the Essex Housing Development LLP may also be consolidated; the Essex Housing Development LLP is a new entity established by the Council during 2020/21 to identify and bring forward surplus land in order to help address general, specialist and affordable housing need.
- 4.11 The Group Accounts will also be produced in May, depending on the availability of the draft accounts for Essex Cares Ltd and the Essex Housing Development LLP for 2020/21.

5. Related matters

- 5.1 The Council is required to produce its Statement of Accounts in compliance with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code). The Code is based on International Financial Reporting Standards.
- 5.2 It was originally the intention of the CIPFA / LASAAC Code Board to incorporate the requirements of **International Financial Reporting Standard 16 Leases** (IFRS 16) into the version of the Accounting Code applicable for the 2020/21 financial year. However, due to concern about the pressure on council finance teams as a consequence of the COVID-19 pandemic, the CIPFA / LASAAC Code Board initially deferred adoption of IFRS 16 to the **2021/22** financial year and subsequently to the **2022/23** financial year. This decision aligns with the proposals across the public sector.
- 5.3 The decision to defer adoption of IFRS 16 now means that there are no significant changes in accounting practice required for 2020/21.

6. Arrangements for audit and approval of the Statement of Accounts

- 6.1 The draft Statement of Accounts will be presented to the Audit, Governance and Standards Committee on **28 June** (subject to the Committee agreeing to meet on this date), for information only.
- 6.2 The period for the exercise of public rights will commence on **1 July** and run for a period of 30 working days. During this period, the public have the right to raise objections, inspect the accounts and question the Local Auditor.
- 6.3 The draft Statement of Accounts will also be presented for external audit on **1 July**.
- 6.4 The Committee will meet on **27 September** to consider the Audit Completion Reports and to approve the Statement of Accounts for publication. The Committee will be required to consider the external auditor's findings before authorising the accounts for issue.

7. Whole of Government Accounts

- 7.1 The Whole of Government Accounts (WGA) initiative, which has statutory backing, is to produce a set of consolidated financial accounts for the entire UK public sector on commercial accounting principles. English local authorities are the largest element of this consolidation process. The WGA return is based on, but is separate to, authorities' statutory financial statements.
- 7.2 At the time of writing this report, HM Treasury have yet to provide the timetable and guidance on the arrangements for production and audit of the WGA return. For planning purposes, it has been assumed that the timetable will be consistent with that for 2019/20.

8. External Audit Plan

- 8.1 The 2020/21 Audit Planning Report is presented elsewhere on the Agenda and explains the work that BDO LLP plans to perform to provide their opinion on the Council's Financial Statements and its arrangements to secure economy, efficiency and effectiveness.
- 8.2 The Audit Plan also includes the proposed fee for the 2020/21 audit.

9. Policy context and Outcomes Framework

9.1 The Statement of Accounts for 2020/21 will summarise the financial performance and financial position for the Council for the year ending 31 March 2021. As such, they will provide a financial representation of activities during 2020/21 against the Corporate Plan.

10. Financial Implications

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

11. Legal Implications

11.1 There are no legal implications associated with this report.

12. Staffing and other resource implications

12.1 Closure of the accounts is a significant activity that requires substantial input from Finance staff. The closure activity is appropriately resourced and prioritised to ensure that key deadlines can be achieved.

13. Equality and Diversity implications

13.1 There are no equality and diversity implications associated with this report.

14. List of appendices

14.1 None

15. List of Background Papers

15.1 None

Report title: 2020/21 Audit Planning Reports for Essex County Council and the Essex Pension Fund	
Report to: Audit, Governance and Standards Committee	
Report author: Nicole Wood, Executive Director, Finance and Technology	
Date of meeting: 22 March 2021	For Approval
Enquiries to Nicole Wood, Executive Director, Finance and Technology email nicole.wood@essex.gov.uk Tel. 07946 705816 or Christine Golding, Chief Accountant email christine.golding@essex.gov.uk Tel. 03330 138401	
Divisions affected All Essex	

1. Purpose of report

- 1.1 The purpose of this report is to present BDO's 2020/21 Audit Planning Reports for the County Council and for the Essex Pension Fund, as appended.

2. Recommendations

- 2.1 That the Committee notes the content of BDO's report.
- 2.2 That the Committee asks BDO to present a further report to its June 2021 meeting, setting out any significant changes to their audit strategy for 2020/21, and their risk assessment and planned approach to the Use of Resources.

3. Background

- 3.1 The Audit Planning Reports explain how BDO intend to carry out their responsibilities as auditor of the County Council and the Essex Pension Fund. Specifically, they provide the Committee with a basis to review BDO's approach and scope for the 2020/21 audits, to ensure that they are aligned with the Committee's expectations.
- 3.2 The plans summarise BDO's initial assessment of the key risks driving the development of an effective audit for the County Council and the Essex Pension Fund and outline their planned audit strategy in response to those risks.

3.3 The scope of the audit is determined by the National Audit Office's Code of Audit Practice which sets out what local auditors are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. The Code of Audit Practice was updated with effect from 1 April 2020 and, as a consequence, the scope of the use of resources work has changed. BDO will need to communicate the risk assessment and planned approach to their use of resources work once final guidance has been issued by the National Audit Office.

3.4 The plans also summarise BDO's proposed timelines for completion of their audits of the County Council and Essex Pension Fund. The proposed timelines currently assume that the opinions will be issued by **30 September 2021**, which is the statutory deadline for publication of the Council's 2020/21 Statement of Accounts.

3.5 BDO welcome the opportunity to discuss these plans with the Committee.

4. Policy context and Outcomes Framework

4.1 The Audit Planning Reports explain the approach that BDO intends to take to provide their opinion on the Statement of Accounts of Essex County Council and the Essex Pension Fund, and on the Council's arrangements to secure value for money in the use of resources.

4.2 The Statement of Accounts provides a financial representation of activities against the Corporate Plan.

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 implications associated with this report.

9. List of appendices

- **Appendix A** – 2020/21 Audit Plan for Essex County Council.
- **Appendix B** – 2020/21 Audit Plan for Essex Pension Fund.

10. List of Background Papers

10.1 None



Report to the Audit, Governance and Standards Committee

ESSEX COUNTY COUNCIL

Audit Planning Report: year ending 31 March 2021

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WELCOME

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We have pleasure in presenting our Audit Planning Report to the Audit, Governance and Standards Committee of Essex County Council (the 'Council'). This report forms a key part of our communication strategy with you, a strategy which is designed to promote effective two way communication throughout the audit process with those charged with governance.

It summarises the planned audit strategy for the year ending 31 March 2021 in respect of our audit of the financial statements and use of resources; comprising materiality, key audit risks and the planned approach to these; together with timetable and the BDO team.

The planned audit strategy has been discussed with management to ensure that it incorporates developments in the business during the year under review, the results for the year to date and other required scope changes.

This report contains matters which should properly be considered by the Council as a whole. We expect that the Audit, Governance and Standards Committee will refer such matters to the Council, together with any recommendations, as it considers appropriate.

We look forward to discussing this plan with you at the Audit, Governance and Standards Committee meeting on 22 March 2021 and to receiving your input on the scope and approach.

In the meantime if you would like to discuss any aspects in advance of the meeting please contact one of the team.

David Eagles, Partner
For and on behalf of **BDO LLP**, Appointed Auditor

10 March 2021



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Engagement Partner

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Deborah Antoine
Assistant Manager

This report has been prepared solely for the use of the [Audit Committee] and Those Charged with Governance. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the appendices.

SCOPE AND MATERIALITY

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This summary provides an overview of the key audit matters that we believe are important to the Audit, Governance and Standards Committee in reviewing the planned audit strategy for the Council and the Group for the year ending 31 March 2021.

It is also intended to promote effective communication and discussion and to ensure that the audit strategy appropriately incorporates input from those charged with governance.

Audit scope

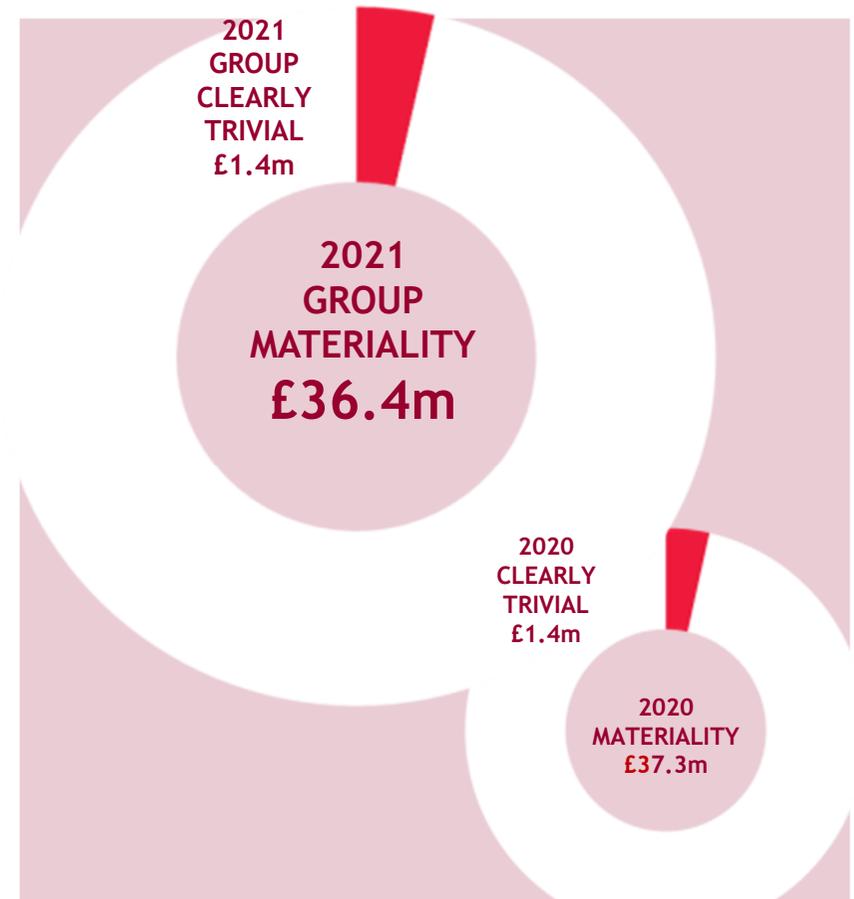
The scope of the audit is determined by the National Audit Office's Code of Audit Practice that sets out what local auditors are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. This includes: auditing the financial statements and consolidated entities (together the 'Group'); reviewing the arrangements to secure value for money through the economic, efficient and effective use of its resources; and, where appropriate, exercising the auditor's wider reporting powers and duties. The Code of Audit Practice was updated with effect from 1 April 2020 and as a consequence the scope of the use of resources work has changed for the year ending 31 March 2021. More information on this change is included on page 20.

Our approach is designed to ensure we obtain the requisite level of assurance in accordance with applicable laws, appropriate standards and guidance issued by the National Audit Office.

Materiality

Planning materiality for the Council and the Group will again be set at 1.75% of gross expenditure for the year. This will be revisited when the draft financial statements are received for audit.

Although materiality is the judgement of the engagement lead, the Audit, Governance and Standards Committee is obliged to satisfy themselves that the materiality chosen is appropriate for the scope of the audit.



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Our audit strategy is predicated on a risk based approach, so that audit work is focused on the areas of the financial statements where the risk of material misstatement is assessed to be higher, or where there is a risk that the organisation has not made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We have discussed the changes to the Council, systems and controls in the year with management and obtained their own view of potential audit risk in order to update our understanding of the Group's activities and to determine which risks impact on the numbers and disclosures in the financial statements, or on its arrangements for securing economy, efficiency and effectiveness in its use of resources. We will continue to update this assessment throughout the audit.

The table on the next page summarises our planned approach to audit risks identified.

There has been no major changes to significant audit risks identified as compared to the prior year. All material areas will be subject to a substantive approach.

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Risk identified	Risk rating	Fraud risk present	Testing approach	Impact of significant judgements and estimates
Management override of controls	Significant	Yes	Substantive	Medium
Revenue recognition	Significant	Yes	Substantive	Medium
Expenditure cut-off	Significant	Yes	Substantive	Low
Valuation of non-current assets	Significant	Yes	Substantive	High
Valuation of pension liability	Significant	No	Substantive	High
Waste treatment plant PFI	Significant	No	Substantive	High
Use of resources	Significant	N/A	TBC	TBC



INDEPENDENCE AND FEES

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Independence

We confirm that the firm complies with the Financial Reporting Council's Ethical Standard for Auditors and, in our professional judgement, is independent

Fees

	2020/21	2019/20
Code audit fee	¹ £134,420	£134,420
Additional audit fee: specific risks	-	£3,000
Additional audit fee: Covid-19 remote working	² £20,000	-
Additional audit fee: new Use of Resources approach	³ TBC	-
Total audit fees	£TBC	£136,420

Fees for non-audit services - audit related:

- Certification of teachers' pensions return £12,250 £12,000

Total fees	£TBC	£148,420
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Fee variances

¹The Code fee remains the PSAA Scale plus the £8,155 added from 2019/20 reflecting the increased expectations relating to the work necessary to audit valuations of non-current assets, pension liabilities and group accounts.

²Covid-related costs

This represents an estimate of the additional resource time and costs necessary when audits are undertaken remotely. The 15% is at the lowest end of the 15-20% range experienced by BDO and the other audit firms. If we are able to undertake some key work on site, the time reflected here should reduce and the fee level decrease accordingly.

³Use of resources fee variance

The audit fee is based on audit scope under the Code of Audit Practice. A new Code is effective for periods commencing 1 April 2020, which significantly increases the work of auditors for reporting on a body's use of resources. We will propose a fee variation in respect of this once additional procedures have been fully scoped.

Amendments to the proposed fees

If we need to propose any amendments to the fees during the course of the audit, where our assessment of risk and complexity are significantly different from those reflected in the proposed fee or where we are required to carry out work in exercising our additional powers and duties, we will first discuss this with the Council. Where this requires a variation to the scale fee set by PSAA we will seek approval from Public Sector Audit Appointments Limited (PSAA). If necessary, we will also prepare a report outlining the reasons why the fee needs to change for discussion with the Audit, Governance and Standards Committee.



OVERVIEW

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Key components of our audit objectives and strategy for the Group are highlighted and explained on the following pages.

Audit planning is a collaborative and continuous process and our audit strategy, as reflected here, will be reviewed and updated as our audit progresses.

We will communicate any significant changes to our audit strategy, should the need for such change arise.

For Use of Resources, we will need to communicate the risk assessment and planned approach once final guidance has been received and the necessary planning work has been completed.

Reporting	Objectives
Auditing standards	We will perform our audit in accordance with International Standards on Auditing UK (ISAs (UK)) and relevant guidance published by the National Audit Office.
Financial statements	We will express an opinion on the Council and Group financial statements, prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting 2020/21 and other directions.
Statement of Accounts	In addition to our objectives regarding the financial statements, we will also read and consider the other information contained in the Statement of Accounts to consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.
WGA	We will review the Whole of Government Accounts (WGA) return and express an opinion on the return whether it is consistent with the audited financial statements
Additional powers and duties	Where necessary we may be required to: issue of a report in the public interest; make a written recommendation to the Council; allow local electors to raise questions and objections on the accounts; or exercise legal powers to apply to the courts for a declaration that an item of account is contrary to law, issue an advisory notice or an application for a judicial review.
Audit Completion Report to the Audit, Governance and Standards Committee	Prior to the approval of the financial statements, we will discuss our significant findings with the Audit, Governance and Standards Committee. We will highlight key accounting and audit issues as well as internal control findings and any other significant matters arising from the audit.
Use of resources and Auditor's Annual Report	We will provide an annual commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources. The commentary will explain the work that we have undertaken during the year and highlight any significant weaknesses identified, along with any recommendations for improvement. The commentary will also draw attention to emerging or developing issues which may not represent significant weaknesses, but which may nevertheless require attention from the Council. The Auditor's Annual Report is required to be published by the Council. At the time of drafting this Audit Planning Report the timetable for publication is not yet confirmed.

AUDIT SCOPE ENTITIES, COMPONENTS AND AUDIT RISKS

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As Group auditor we are required to design an audit strategy to ensure we have obtained the required audit assurance for each component for the purposes of our Group audit opinion ISA (UK) 600

A high-level overview of how we have designed the Group audit strategy is summarised on the next page to ensure you have clear oversight of the scope of the work we intend to perform on each entity.

Audit Risks, covered later in this report, are cross referenced to each entity to provide clarity over how these arise within your business and where the focus of the audit work will be.

The clearly trivial threshold for all components has been set at the Group level, being £1.4m.



AUDIT SCOPE ENTITIES, COMPONENTS AND AUDIT RISKS 2

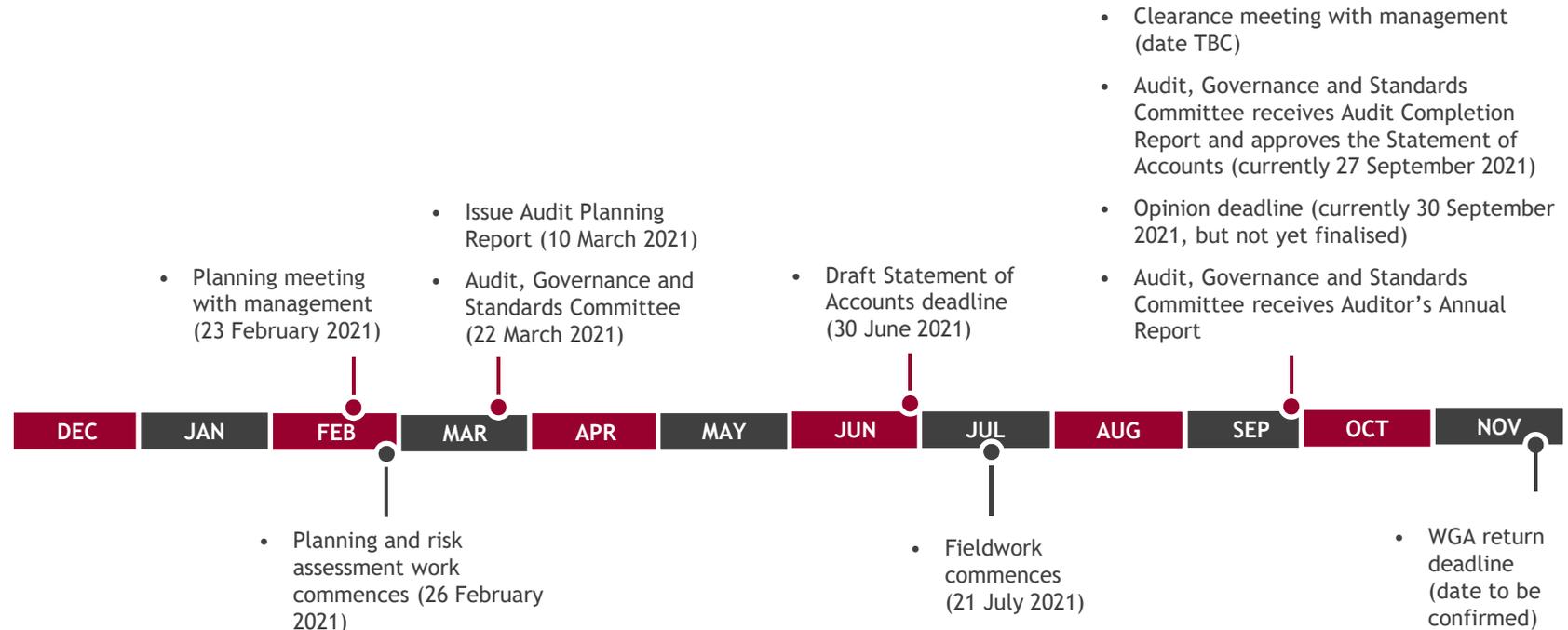
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Entity	Nature of Operations	Audit classification	Reason for classification	Audit Risks	Component Materiality and basis of assessment	Audit strategy
Essex County Council	Local Authority	Significant component	Size	All risks	£36.3 million	Statutory audit performed by BDO UK
Essex Cares Limited	Social care	Non significant component	Size	N/A	N/A	Desktop review performed by BDO UK
Essex Housing Development LLP	Housing	Non significant component	Size	N/A	N/A	TBC

AUDIT TIMELINE

An overview of the key dates

At the time of drafting this Audit Planning Report, the deadlines for preparing and publishing local authority accounts are subject to consultation, as part of the Government's response to Sir Tony Redmond's review. The consultation proposes pushing back the final accounts publication date to 30 September 2021 and requiring draft accounts to be published on or before 1 August 2021, together with a new requirement for local bodies to provide an explanation on their website if they miss the revised draft publication date.



The timeline set out above would be extremely challenging to achieve. This is because of a number of issues, not least of which are the delays and reduced scope of any interim work that can be achieved to pull audit testing out of the final phase, the additional time working remotely takes, a later final audit start date and notable additional work pressures linked to the introduction of the new NAO Code of Audit Practice. Notwithstanding these issues, we consider it is necessary to aim for the currently proposed statutory publication deadline. If this is pushed back, our preference would be to revisit this timeline to agree a less pressured programme that has reduced risk of missing the target dates.

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David Eagles
Engagement Lead

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As audit engagement lead I have primary responsibility to ensure that the appropriate audit opinion is given. In meeting this responsibility I ensure that the audit has resulted in obtaining sufficient and appropriate evidence to provide reasonable, but not absolute, assurance that the financial statements are free from material misstatement, whether due to fraud or error, and to report on the financial statements and communicate as required by the ISAs (UK), in accordance with our findings.

I will ensure that we have undertaken sufficient work to assess the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources against the guidance published by the National Audit Office.

I am responsible for the overall quality of the engagement and am supported by the rest of the team as set out here.



Barry Pryke
Senior Manager

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I will lead on the audit of the Council, including for Use of Resources. I work closely with David to develop and execute the audit strategy. I will be a key point of contact on a day to day basis and will ensure that timelines are carefully managed to ensure that deadlines are met and matters to be communicated to management and the Audit, Governance and Standards Committee are highlighted on a timely basis.



Deborah Antoine,
Assistant Manager

I will be responsible for the day to day supervision of the audit team, and will be responsible for the delivery of the key audit work.

OVERVIEW

Audit risks

We have assessed the following as audit risks. These are matters assessed as most likely to cause a material misstatement in the financial statements or impact on our use of resources opinion and include those that will have the greatest effect on audit strategy, the allocation of audit resources and the amount of audit focus by the engagement team.

Key: Significant

Description of risk	Significant risk	Overview of risk
1. Management override of controls		Auditing standards presume that management is in a unique position to perpetrate fraud by overriding controls.
2. Revenue recognition		Auditing standards presume that income recognition presents a fraud risk.
3. Expenditure cut-off		For public sector bodies the risk of fraud related to expenditure is also relevant.
4. Valuation of non-current assets		The valuation of non-current assets is a significant risk as it involves a high degree of estimation uncertainty.
5. Valuation of pension liability		The valuation of the pension liability is a significant risk as it involves a high degree of estimation uncertainty.
6. Waste treatment plant PFI		There is a risk that assets and liabilities associated with the Waste Treatment Plant PFI are treated incorrectly in the Council's accounts.
7. Use of resources		The risk assessment and proposed response will be completed and discussed when the guidance has been finalised.

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MANAGEMENT OVERRIDE OF CONTROLS

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Auditing standards presume that management is in a unique position to perpetrate fraud by overriding controls.

Significant risk	■
Normal risk	
Fraud risk	■
Assess design & implementation of controls to mitigate	■
Significant Management estimates & judgements	
Controls testing approach	
Substantive testing approach	■
Risk highlighted by Council	

Risk detail

- Management has the ability to manipulate accounting records and override controls that otherwise appear to be operating effectively. We are required to consider this as a significant risk of material misstatement due to fraud.

Planned audit approach

Our audit procedures will include the following:

- Review and verification of journal entries made in the year, agreeing the journals to supporting documentation. We will determine key risk characteristics to filter the population of journals. We will undertake necessary procedures to validate the data extraction undertaken and use our IT team to assist with transferring the journal extraction into BDO Advantage for audit use;
- Review of estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias; and
- Review the nature and causes of of any unadjusted audit differences for indications of bias or deliberate misstatement.

REVENUE RECOGNITION

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Auditing standards presume that income recognition presents a fraud risk.

Significant risk

Normal risk

Fraud risk

Assess design & implementation of controls to mitigate

Significant Management estimates & judgements

Controls testing approach

Substantive testing approach

Risk highlighted by Council

Risk detail

Under auditing standards there is a presumption that income recognition presents a fraud risk. For the Council, we consider the risk of fraudulent revenue recognition (primarily through the manipulation of financial reporting) to be in respect of the accuracy and existence of revenue grants subject to specific performance conditions.

Planned audit approach

Our audit procedures will include the following:

- Testing a sample of grants included in income to supporting documentation from grant paying bodies and check whether recognition criteria have been met.

EXPENDITURE CUT-OFF

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For public sector bodies the risk of fraud related to expenditure is also relevant.

Risk detail

For net-spending bodies in the public sector there is also risk of fraud related to expenditure. For the Council, we consider the risk of fraud to be in respect of the cut-off of expenditure at year-end.

Planned audit approach

Our audit procedures will include the following:

- Checking that expenditure is recognised in the correct accounting period by substantively testing a sample of expenditure around year-end.

Significant risk	■
Normal risk	
Fraud risk	■
Assess design & implementation of controls to mitigate	■
Significant Management estimates & judgements	
Controls testing approach	
Substantive testing approach	■
Risk highlighted by Council	

VALUATION OF NON-CURRENT ASSETS

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The valuation of non-current assets is a significant risk as it involves a high degree of estimation uncertainty.

Significant risk	■
Normal risk	□
Fraud risk	□
Assess design & implementation of controls to mitigate	■
Significant Management estimates & judgements	■
Controls testing approach	□
Substantive testing approach	■
Risk highlighted by Council	■

Risk detail

Local authorities are required to ensure that the carrying value of land and buildings is not materially different to the current value (operational assets) or fair value (surplus assets, assets held for sale and investment properties) at the balance sheet date.

The Council applies a five-year rolling revaluation programme to its land and buildings, with surplus assets and investment properties revalued annually. A market review is performed at the end of the financial year to determine whether material movements may have occurred since the valuation date. Property revaluations and the market review are undertaken by the Council’s external property advisors.

Due to the significant value of the Council’s land, buildings and investment properties, there is a risk over the valuation of these assets due to the high degree of estimation uncertainty and where updated valuations have not been provided for a class of assets at the year-end.

Planned audit approach

Our audit procedures will include the following:

- Reviewing the instructions provided to the valuer and the valuer’s skills and expertise in order to determine if we can rely on the management expert;
- Confirming that the basis of valuation for assets valued in year is appropriate based on their usage;
- Reviewing accuracy and completeness of information provided to the valuer, such as rental agreements and sizes;
- Reviewing assumptions used by the valuer and movements against relevant indices for similar classes of assets;
- Following up valuation movements that appear unusual; and
- Confirming that assets not specifically valued in the year have been assessed to ensure their reported values remain materially correct.

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The valuation of the pension liability is a significant risk as it involves a high degree of estimation uncertainty

Significant risk	■
Normal risk	□
Fraud risk	■
Assess design & implementation of controls to mitigate	■
Significant Management estimates & judgements	■
Controls testing approach	■
Substantive testing approach	■
Risk highlighted by Council	■

Risk detail

The net pension liability comprises the Council’s share of the market value of assets held in the pension fund and the estimated future liability to pay pensions.

The valuation of the pension liability is a complex calculation involving a number of significant judgements and assumptions. The actuarial estimate of the pension fund liability uses information on current, deferred and retired member data and applies various actuarial assumptions over pension increases, salary increases, mortality, commutation take up and discount rates to calculate the net present value of the liability.

There is a risk that the membership data and cash flows provided to the actuary at year end may not be accurate, and that the actuary uses inappropriate assumptions to value the liability. Relatively small adjustments to assumptions used can have a material impact on the Council’s share of the scheme liability.

Planned audit approach

Our audit procedures will include the following:

- Agreeing the disclosures to the information provided by the pension fund actuary;
- Reviewing the competence of the management expert (actuary);
- Reviewing the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data;
- Reviewing the controls in place for providing accurate membership data to the actuary;
- Contacting the pension fund auditor and requesting confirmation of the controls in place for providing accurate membership data to the actuary and testing of that data; and
- Checking that any significant changes in membership data have been communicated to the actuary.

WASTE TREATMENT PLANT PFI

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There is a risk that assets and liabilities associated with the Waste Treatment Plant PFI are treated incorrectly in the Council's accounts.

Significant risk	■
Normal risk	—
Fraud risk	■
Assess design & implementation of controls to mitigate	■
Significant Management estimates & judgements	■
Controls testing approach	■
Substantive testing approach	■
Risk highlighted by Council	■

Risk detail

The Council is party to a PFI arrangement for the design, construction and operation of a waste treatment plant. As disclosed in the Council's previous years' Statements of Accounts, construction of the plant commenced in May 2013 and achieved the Readiness Date in November 2014. The Facility remains in the commissioning phase and the contractual long stop date has passed. The Council and operator of the facility are currently utilising contractual and dispute mechanism to resolve issues which have occurred during the commissioning phase.

There is a risk that assets and liabilities associated with the Waste Treatment Plant PFI are treated incorrectly in the Council's accounts.

Planned audit approach

Our audit procedures will include the following:

- Confirming that the Council's accounting treatment of the arrangement is consistent with the terms set out in the contract and the requirements of CIPFA's Code of Practice on Local Authority Accounting; and
- Considering the basis for any judgements made by management in determining the treatment of the assets and liabilities associated with the arrangement.

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New Code of Audit Practice (“Code”)

The Comptroller & Auditor General has determined through a new Code and guidance that the key output from local audit work in respect of value for money (VFM) arrangements is a commentary as reported in the Auditor’s Annual Report, not a VFM arrangements ‘conclusion’ or ‘opinion’. There may be matters referred to in the auditor’s commentary that do not represent significant weaknesses in arrangements and where significant weaknesses are reported we are required to also report recommendations.

As auditors we need to gather sufficient evidence and document our evaluation of arrangements to enable us to draft our commentary under three reporting criteria. These criteria are:

- **Financial sustainability** - How the Council plans and manages its resources to ensure it can continue to deliver its services
- **Governance** - How the Council ensures that it makes informed decisions and properly manages its risks
- **Improving economy, efficiency and effectiveness** (‘Improving 3Es’) - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

In addition to new assessment criteria and commentary requirements, the scope of the new Code also considerably increases auditors’ requirements for planning documentation and management should expect an increase in requests for discussion and evidence to facilitate this requirement.

Risk of Significant Weakness

We are required to report the results of our risk assessment to those charged with governance, including additional work planned in respect of any identified risks of significant weakness, and to keep our risk assessment under continual review, with any changes again communicated to those charged with governance.

We are working through the implications of the new Code, including our risk assessment and a work programme that addresses risks of significant weakness identified.

We will update the Audit, Governance and Standards Committee on risks of significant weakness and planned work when final guidance has been issued and we have completed our risk assessment and planned response. Subject to risks being identified, will issue an updated version of this report.

GOING CONCERN

Management are required to make an assessment of the Council's ability to continue as a going concern.

Management's responsibilities

It is Management's responsibility to make an assessment of the Council's ability to continue as a going concern to support the basis of preparation for the financial statements and disclosures in the financial statements. This is a requirement of the accounting standards.

This assessment should be supported by detailed cash flow forecasts with clear details of the key underlying assumptions, consideration of available finance throughout the forecast period, and a consideration of the forecast's sensitivity to reasonably possible variations in those assumptions along with any other relevant factors.

The going concern assessment should cover a minimum of 12 months from the date of the directors' approval of the financial statements. However, consideration should also be given to any major events or circumstances that may fall outside this period.

Audit responsibilities

Our responsibilities in respect of going concern are:

- (a) To obtain sufficient appropriate audit evidence regarding, and conclude on, i) whether a material uncertainty related to going concern exists; and ii) the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements
- (b) To report in accordance with ISA (UK) 570.

We will obtain an understanding of the business model, objectives, strategies and related business risk, the measurement and review of the Council's financial performance including forecasting and budgeting processes and the Council's risk assessment process. We will evaluate:

- a) The Council's method, including the relevance and reliability of underlying data used to make the assessment, whether assumptions and changes to assumptions from prior years are appropriate and consistent with each other
- b) The Council's plans for future actions in relation to the going concern assessment including whether such plans are feasible in the circumstances
- c) The adequacy and appropriateness of disclosures in the financial statements regarding the going concern assessment and any material uncertainties that may exist.

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Fraud

Whilst the directors of the Council have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit approach includes the consideration of fraud throughout the audit and includes making enquiries of management and those charged with governance.

We have been made aware of a small number of low value actual, alleged or suspected incidences of fraud reported by the Council. We request confirmation from the Audit, Governance and Standards Committee on fraud and a discussion on the controls and processes in place to ensure timely identification and action.

Management believe that there is low risk of material misstatement arising from fraud and that controls in operation would prevent or detect material fraud.

Accounting policies

We will report to you on significant qualitative aspects of your chosen accounting policies. We will consider the consistency and application of the policies and we will report to you where accounting policies are inconsistent with the CIPFA Code of Practice on Local Authority Accounting 2020/21 under the circumstances.

Significant accounting estimates and judgements

We will report to you on significant accounting estimates and judgements. We will seek to understand and perform audit testing procedures on accounting estimates and judgements including consideration of the outcome of historical judgements and estimates. We will report to you our consideration of whether management estimates and judgements are within an acceptable range.

Internal audit

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

We will review the reports issued by the Council's internal audit function although we do not plan place reliance on their work in respect of their assessment of control processes

Laws and regulations

We will consider compliance with laws and regulations. The most significant of these for your organisation includes VAT legislation, Employment Taxes, Health and Safety and the Bribery Act 2010. We will make enquiries of management and review correspondence with the relevant authorities. Specialist teams within BDO will review VAT and employment tax compliance work undertaken by the audit team.

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Related parties

Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for Management override or concealment or fraud. Our audit approach includes the consideration of related party transactions throughout the audit including making enquiries of management.

Financial statement disclosures

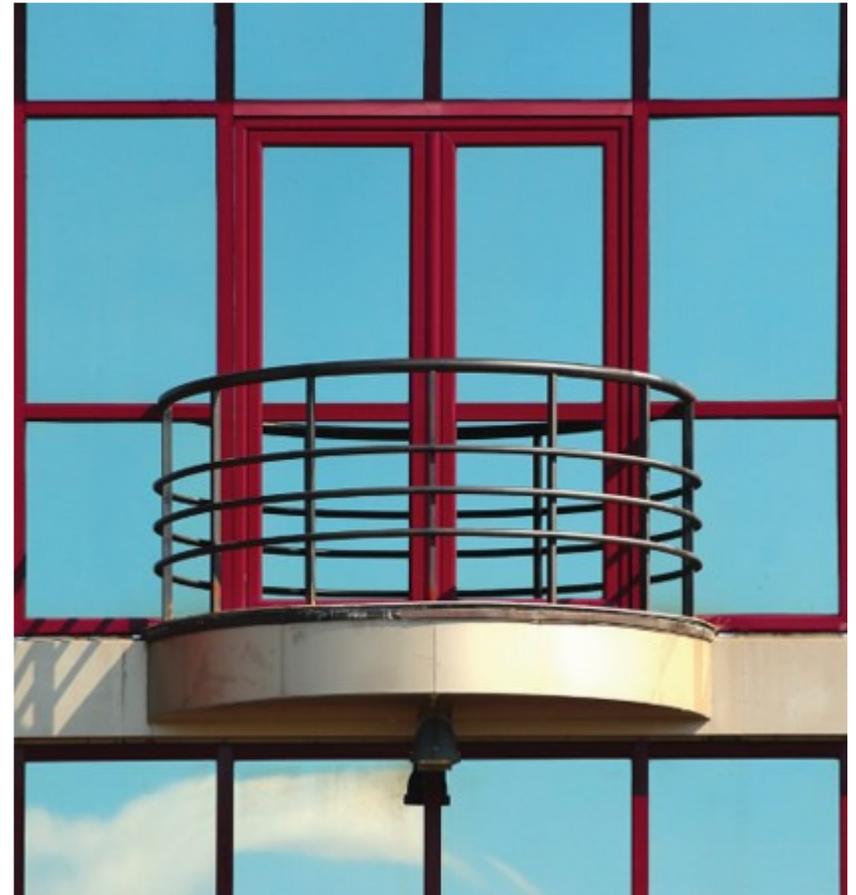
We will report to you on the sufficiency and content of your financial statement disclosures.

Contingencies

We request primary input from the Council's legal team and confirmation of the completeness and accuracy of disclosed elements from the Audit, Governance and Standards Committee on any recent claims.

Any other matters

We will report to you on any other matters relevant to the overseeing of the financial reporting process. Where applicable this includes why we consider a significant accounting practice that is acceptable under the financial reporting framework not to be the most appropriate.



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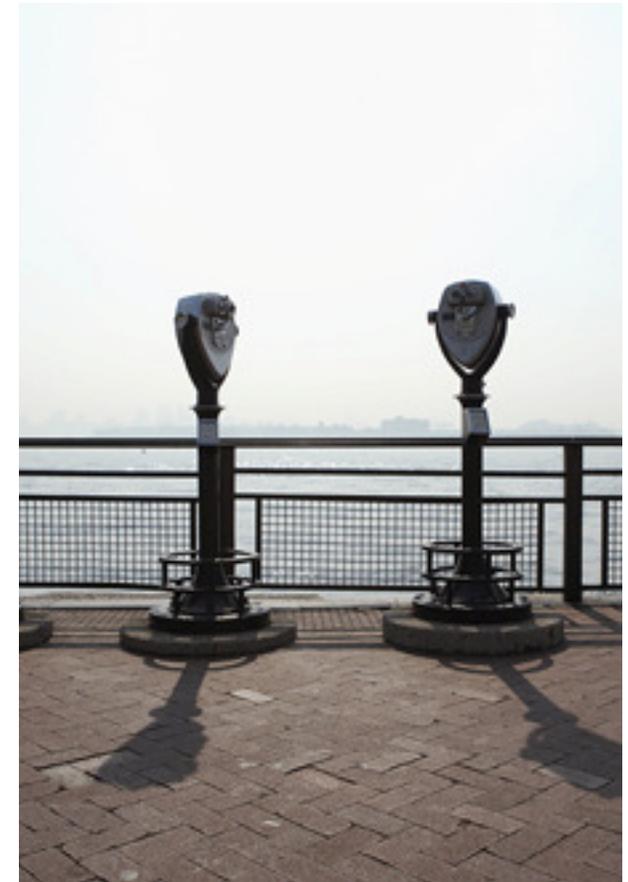
We are required to include in our auditor's report an explanation of the extent to which the audit is considered capable of detecting irregularities (non compliance with laws and regulations), including fraud.

Our audit is designed to provide reasonable assurance about whether the financial statements as whole a free from material misstatement whether due to fraud or error. We design audit procedures to respond to the risk of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and that irregularities that result from fraud might be inherently more difficult to detect than irregularities that result from error.

Our audit work will focus on laws and regulations that could give rise to a material misstatement in the Council's financial statements and may include, where appropriate:

- Obtaining an understanding of the control environment in monitoring compliance with laws and regulations
- Enquiries of management, those charged with governance and the Council's legal advisers
- Agreement of the financial statement disclosures to underlying supporting documentation
- Review of minutes of Council and Cabinet meetings throughout the year and of correspondence with regulatory authorities
- Written representations.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.



ACCOUNTING ESTIMATES

Revision to ISA (UK) 540 means that we may need to update our approach the audit of accounting estimates - including confirmation and documentation of our understanding of the Council's estimation process.

We will need to obtain an understanding of how you control your estimation process including not only the design and implementation of the process, but also the policies and procedures you put in place to satisfy yourself that each step in the process is properly applied, and that the resulting accounting estimates are reasonable.

For significant accounting estimates, particularly those that are complex or where there is a high degree of estimation uncertainty we will also make enquiries about how you:

- Make those responsible for deriving or changing your accounting estimates aware of relevant significant transactions, conditions or events
- Review the outcome(s) of previous accounting estimates and respond to the results of that review
- Identify and comply with the relevant requirements in the applicable financial reporting framework regarding your accounting estimates and related disclosures including how they are affected by complexity and your judgment
- Account for regulatory factors relevant to the Council's accounting estimates;, including, when applicable, regulatory frameworks related to prudential supervision
- Identify the need for, and apply, specialised skills or knowledge related to accounting estimates, including with respect to the use of a management's expert
- Identify and address risks related to accounting estimates through your risk assessment process

- Identify relevant methods (including models), assumptions and data and the need for changes in them and from those identified, and select those to apply
- Address the degree of estimation uncertainty in selecting your final point estimates
- Describe in your financial statements matters related to your process for deriving your accounting estimates, and matters related to the degrees of estimation uncertainty underlying your accounting estimates
- Ensure there is oversight and governance in place over management's financial reporting process relevant to accounting estimates.

Under ISA (UK) 540 (revised) our audit approach will involve a more granular risk assessment relating to each significant estimate and separate consideration of the methods (or models) applied in calculating the estimate, the nature, source and reliability of data used and the significance, consistency and appropriateness of assumptions made.

We will also request written representations from you regarding the reasonableness of the methods, significant assumptions and the data used in determining the monetary amounts of accounting estimates, including the related disclosures, in accordance with the CIPFA Code of Practice on Local Authority Accounting 2020/21.

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IT GENERAL CONTROLS

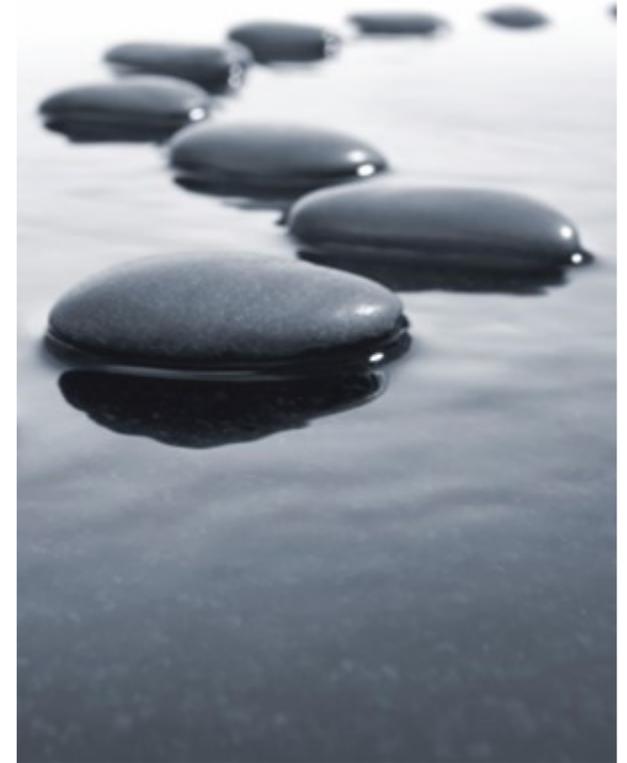
IT General Controls (ITGCs) are the policies and procedures that relate to many IT applications and support the effective functioning of application controls by helping to ensure the continued proper operation of information systems. They commonly include controls over data center and network operations; system software acquisition, change and maintenance; access security; and application system acquisition, development, and maintenance.

ITGCs are an important component in systems of internal control, and sometimes have a direct impact on the reliability of other controls.

IT assurance is embedded in our audit strategy to ensure the IT systems provide a suitable platform for the control environment and is undertaken in conjunction with our IT Assurance team. Our testing strategy includes a tailored range of data analytics, system configuration and IT environment testing.

We will also obtain an understanding of the information system, including the related business processes relevant to financial reporting, to include:

- Oracle (general ledger, accounts receivable, accounts payable and payroll);
- Capita 360 Pay (income receipting);
- Mosaic (social care case management and finance) ;
- A4W (adult social care finance); and
- RAM (property, plant and equipment)



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FRC ETHICAL STANDARD (DECEMBER 2019)

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In December 2019 the FRC published the Revised Ethical Standard 2019 ('ES'), which is applicable from 15 March 2020. There are some transitional provisions for services and arrangements that are not currently prohibited under the existing Standard. The ES aims to further strengthen auditor independence and enhance confidence in the profession. The table below provides a high level summary of the key headlines as applicable to our audit of the Council.

Key headlines	Impact
The objective, reasonable & informed third party test	Reinforcement that ethical principles take priority over rules. A need to take care where particular facts and circumstances are either not addressed directly by the rules or might appear to 'work around' the rules, or result in an outcome that is inconsistent with the general principles.
Contingent fees	Non-audit services with contingent or success-based fee arrangements will be prohibited for audited entities.
Secondments	All secondments/loan staff to audited entities are prohibited with the exception of secondments to public sector entities.
Recruitment and remuneration services	Prohibition on providing remuneration services to audited entities such as advising on the quantum of the remuneration package or the measurement criteria for calculation of the package. In addition, the prohibition on providing recruitment services to an audited entity that would involve the firm taking responsibility for, or advising on the appointment of, any director or employee of the entity.

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Under ISAs (UK) and the FRC’s Ethical Standard we are required, as auditors, to confirm our independence.

We have embedded the requirements of the auditing standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement leads are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement.

This document considers such matters in the context of our audit for the year ending 31 March 2021.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC’s Ethical Standard and are independent of the Council and the Group.

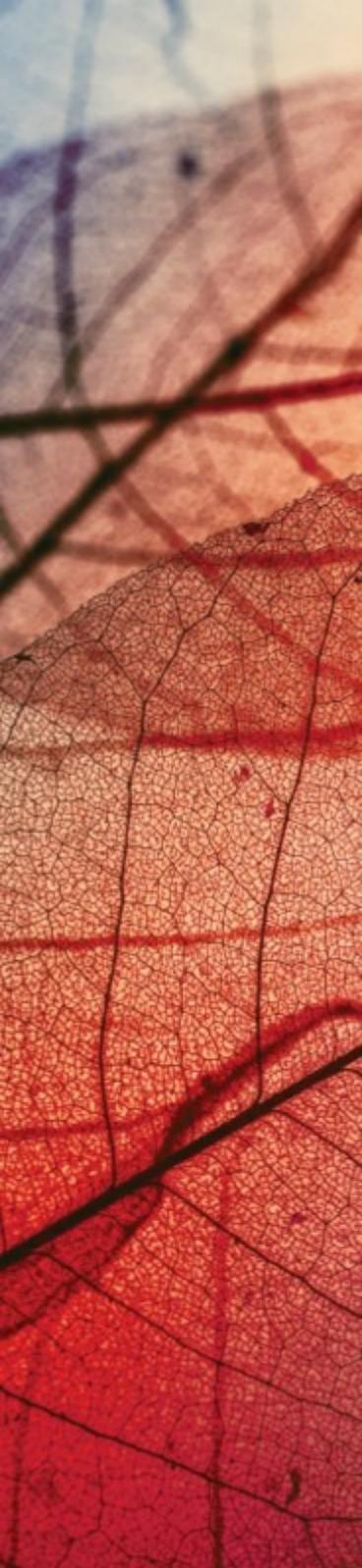
We also confirm that we have obtained confirmation that external audit experts involved in the audit comply with relevant ethical requirements including the FRC’s Ethical Standard and are independent of the Council and the Group.

Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

Non-audit services

Details of services, other than audit, provided by us to the Council during the period and up to the date of this report are set out in the fees table on page 7.

Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.



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Financial reporting

The Council is expected to have effective governance arrangements to deliver its objectives. To this end, the publication of the financial statements is an essential means by which the Council accounts for its stewardship and use of the public money at its disposal.

The form and content of the Council's financial statements, and any additional schedules or returns for consolidation purposes, should reflect the requirements of the relevant accounting and reporting framework in place and any applicable accounting standards or other direction under the circumstances.

The Council is also required to prepare schedules or returns to facilitate the preparation of consolidated accounts such as HM Treasury's Whole of Government Accounts.

The Section 151 Officer is responsible for preparing and filing a Statement of Accounts and financial statements which show a true and fair view in accordance with CIPFA Code of Practice on Local Authority Accounting 2020/21, applicable accounting standards or other direction under the circumstances.

Our audit of the financial statements does not relieve management nor those charged with governance of their responsibilities for the preparation of materially accurate financial statements.

Use of resources

Councils are required to maintain an effective system of internal control that supports the achievement of their policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at their disposal.

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a Governance Statement.

In preparing its Governance Statement, the Council will tailor the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on their arrangements for securing value for money from their use of resources.

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Our responsibilities and reporting - financial reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your financial statements. We report our opinion on the financial statements to the members of the Council.

We read and consider the ‘other information’ contained in the Annual Report such as the additional narrative reports. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

Our responsibilities and reporting - use of resources

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

This means that we have regard to relevant guidance issued by the National Audit Office and undertake sufficient work to be able to satisfy ourselves as to whether the Council has put arrangements in place that support the achievement of value for money and to provide an annual commentary on arrangements in the Auditor’s Annual Report.

What we don’t report

Our audit is not designed to identify all matters that may be relevant to the Council and the Audit, Governance and Standards Committee and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.



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Those charged with governance

References in this report to ‘those charged with governance’ are to the Council as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Audit, Governance and Standards Committee.

In communicating with the Audit, Governance and Standards Committee, representing TCWG of the parent and the Group, we consider TCWG of subsidiary entities to be informed about matters relevant to their subsidiary. Please let us know if this is not appropriate.

Communication, meetings and feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered. We will meet with management throughout the audit process. We will issue regular updates and drive the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

Audit Planning Report

The Audit Planning Report sets out all planning matters which we want to draw to your attention including audit scope, our assessment of audit risks and materiality.

Internal Controls

We will consider internal controls relevant to the preparation of financial statements in order to design our audit procedures and complete our work. This is not for the purpose of expressing an opinion on the effectiveness of internal control.

Audit Completion Report

At the conclusion of the audit, we will issue an Audit Completion Report to communicate to you key audit findings before concluding our audit opinion. We will include any significant deficiencies in internal controls which we identify as a result of performing audit procedures. We will meet with you to discuss the findings and in particular to receive your input on areas of the financial statements involving significant estimates and judgements and critical accounting policies.

Once we have discussed the contents of the Audit Completion Report with you and having resolved all outstanding matters we will issue a final version of the report.

Auditor’s Annual Report

We will provide an annual commentary on the Council’s arrangements to secure economy, efficiency and effectiveness in its use of resources. The commentary will explain the work that we have undertaken during the year and highlight any significant weaknesses identified, along with any recommendations for improvement. The commentary will also draw attention to emerging or developing issues which may not represent significant weaknesses, but which may nevertheless require attention from the Council. The Auditor’s Annual Report is required to be published by the Council. At the time of drafting this Audit Planning Report the timetable for publication is not yet confirmed.

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These tables indicates the latest rotation periods normally permitted under the independence rules of the FRC’s Ethical Standard.

In order to safeguard audit quality we will employ a policy of gradual rotation covering the team members as well as other senior members of the engagement team to ensure a certain level of continuity from year to year.



Independence - engagement team rotation

Senior team members	Number of years involved	Rotation to take place after
David Eagles Engagement lead	3	5 years
Barry Pryke Senior Manager	3	10 years

Independence - audit quality control

	Number of years involved	Rotation to take place after
Engagement quality control reviewer	3	5 years

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Concept and definition

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Materiality therefore has qualitative as well as quantitative aspects and an item may be considered material, irrespective of its size, if it has an impact on (for example):

- Narrative disclosure e.g. accounting policies, going concern
- Instances when greater precision is required (e.g. disclosure of senior officers’ remuneration and related party transactions).

International Standards on Auditing (UK) also allow the auditor to set a lower level of materiality for particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Calculation and determination

We have determined materiality based on professional judgement in the context of our knowledge of the Group, including consideration of factors such as industry developments, financial stability and reporting requirements for the financial statements.

We determine materiality in order to:

- Assist in establishing the scope of our audit engagement and audit tests
- Calculate sample sizes
- Assist in evaluating the effect of known and likely misstatements on the Group financial statements.

Reassessment of materiality

We will reconsider materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality if we had been aware.

Further, when we have performed all our tests and are ready to evaluate the results of those tests (including any misstatements we detected) we will reconsider whether materiality combined with the nature, timing and extent of our auditing procedures, provided a sufficient audit scope.

Definition of materiality under IFRS

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

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If we conclude that our audit scope was sufficient, we will use materiality to evaluate whether uncorrected misstatements (individually or in aggregate) are material.

You should be aware that any misstatements that we identify during our audit, both corrected and uncorrected errors, might result in additional audit procedures being necessary.

Unadjusted errors

We will communicate to you all uncorrected misstatements identified during our audit, other than those which we believe are ‘clearly trivial’.

Clearly trivial is defined as matters which will be of a wholly different (smaller) order of magnitude than the materiality thresholds used in the audit, and will be matters that are clearly inconsequential, whether taken individually or in aggregate.

We will obtain written representations from the Audit, Governance and Standards Committee confirming that in their opinion these uncorrected misstatements are immaterial, both individually and in aggregate and that, in the context of the financial statements taken as a whole, no adjustments are required.

We will request that you correct all uncorrected misstatements. In particular we would strongly recommend correction of errors whose correction would affect compliance with contractual obligations or governmental regulations. Where you choose not to correct all identified misstatements we will request a written representation from you setting out your reasons for not doing so and confirming that in your view the effects of any uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as whole.

NEW ACCOUNTING STANDARDS, AUDITING STANDARDS AND OTHER FINANCIAL REPORTING DEVELOPMENTS

We would like to draw to your attention the following summary of key changes to standards, regulations and other financing reporting developments, their effective dates and an indication, based on preliminary discussions with management and our sector understanding, of their possible effect on the annual report.

New Accounting Standards, Auditing Standards and Other Financial Reporting Developments	Expected effect				Effective for periods beginning on or after 1 January	
	None	Low	Medium	High	2020	2021
Auditing standard - audit of accounting estimates						
Increased emphasis on understanding management’s processes, systems and controls estimation uncertainty and financial statement disclosures			●		●	
Auditing standard - going concern						
Increased emphasis on evaluation of management’s assessment of the entity’s ability to continue as a going concern			●		●	
Auditing standard - audit reports						
New audit report format with updated conclusion on going concern and reference to irregularities, including fraud			●		●	

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AQR RESULTS 2019/20

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Overview

The FRC released their Audit Quality Review results for the 7 largest accountancy firms in July 2020 for the review period 2019/20. A copy of all of the reports can be found on the [FRC Website](#).

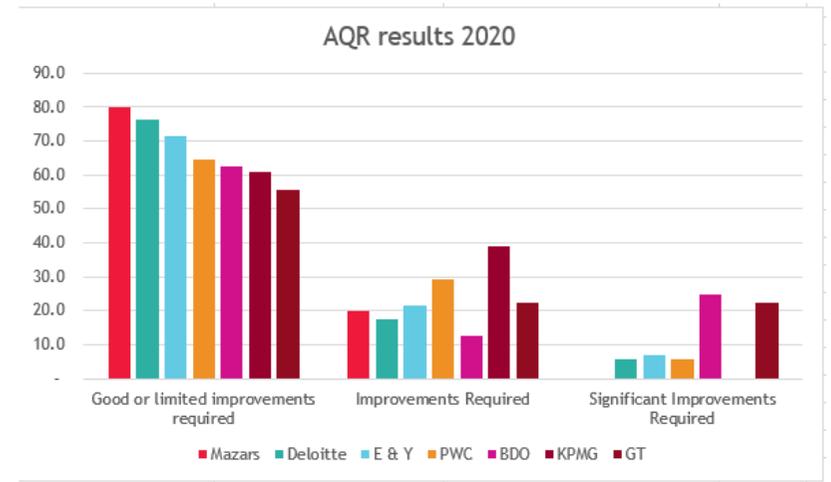
Firm's Results

The graphs demonstrates our performance in relation to the other 6 largest firms. Having topped the table for audit quality for the last two consecutive years, we are disappointed to see a decline in our results. These scores remind us we must remain committed to continuous improvements and, having carefully considered the root causes of the AQR findings, we are in the process of implementing detailed action plans where required. We have made a number of enhancements to our Audit Quality Plan to address these issues to drive our key focus of a continuous improvement in audit quality including highlighting how we will make changes to our root cause analysis process which plays a key role.

We would encourage you to read our report which includes:

- Details of the root cause analysis we have been undertaking to address issues raised
- The actions we have/are undertaking to address the issues raised by the AQR
- A number of areas of good practice the AQR review team identified whilst undertaking their review.

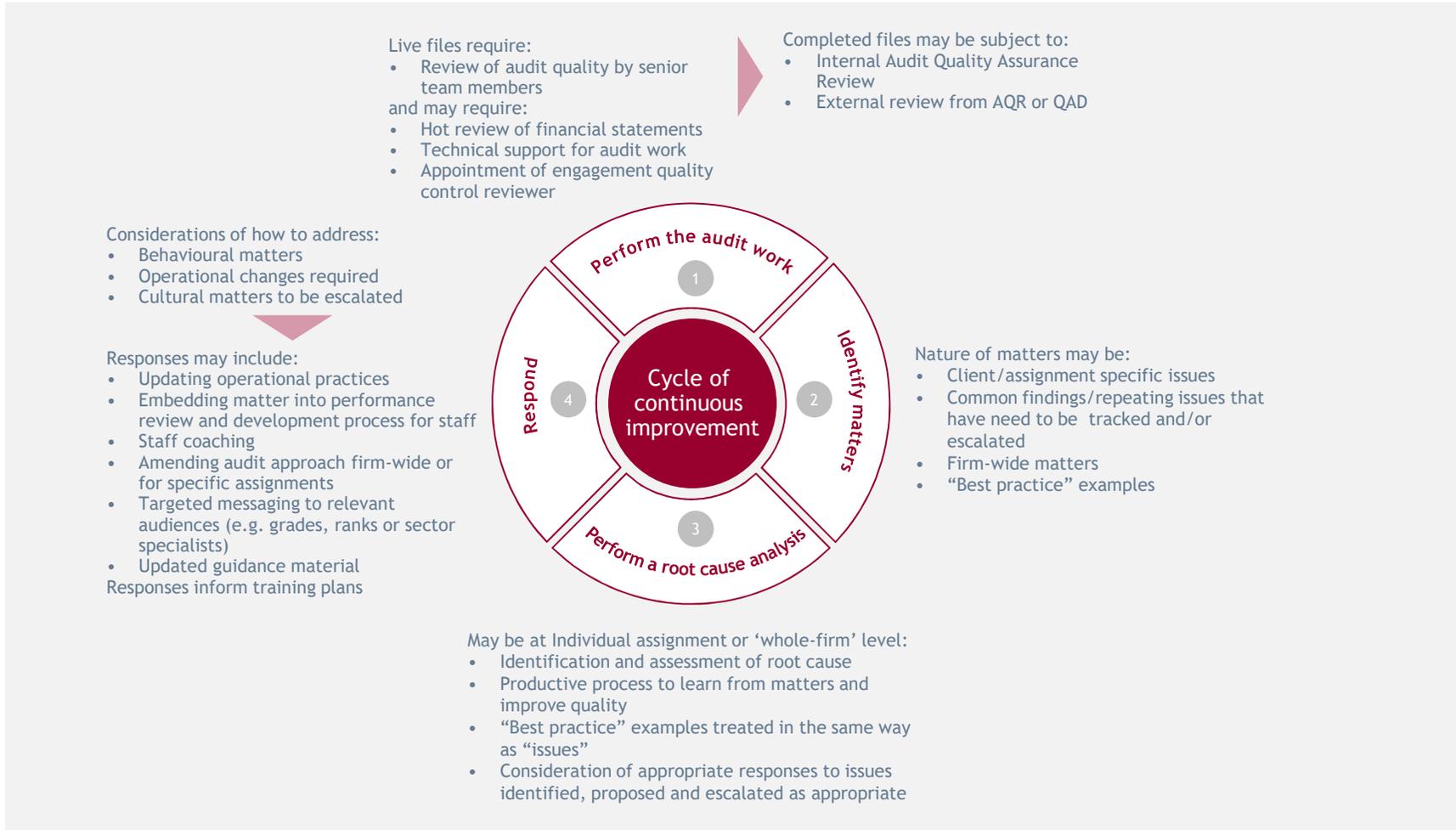
More details will be included in our Transparency Report which will be available on our www.bdo.co.uk



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The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the company and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

BDO is an award winning UK member firm of BDO International, the world's fifth largest accountancy network, with more than 1,500 offices in over 160 countries.

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Report to the Audit, Governance and Standards Committee

ESSEX PENSION FUND

Audit Planning Report: year ending 31 March 2021

IDEAS | PEOPLE | TRUST



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WELCOME

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We have pleasure in presenting our Audit Planning Report to the Audit, Governance and Standards Committee of Essex County Council (the 'Council') in respect of the Essex Pension Fund. This report forms a key part of our communication strategy with you, a strategy which is designed to promote effective two way communication throughout the audit process with those charged with governance.

It summarises the planned audit strategy for the year ending 31 March 2021 in respect of our audit of the financial statements; comprising materiality, key audit risks and the planned approach to these; together with timetable and the BDO team.

The planned audit strategy has been discussed with Management to ensure that it incorporates developments in the business during the year under review, the results for the year to date and other required scope changes.

This report contains matters which should properly be considered by the Council, as administering authority, as a whole. We expect that the Audit, Governance and Standards Committee will refer such matters to the Council, together with any recommendations, as it considers appropriate.

We look forward to discussing this plan with you at the Audit, Governance and Standards Committee meeting on 22 March 2021 and to receiving your input on the scope and approach.

In the meantime if you would like to discuss any aspects in advance of the meeting please contact one of the team.

David Eagles, Partner
For and on behalf of **BDO LLP**, Appointed Auditor

10 March 2021



David Eagles, Engagement Partner

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Barry Pryke, Senior Manager

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Deborah Antoine, Assistant Manager

This report has been prepared solely for the use of the [Audit Committee] and Those Charged with Governance. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the appendices.

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This summary provides an overview of the key audit matters that we believe are important to the Audit, Governance and Standards Committee in reviewing the planned audit strategy for the Pension Fund for the year ending 31 March 2021.

It is also intended to promote effective communication and discussion and to ensure that the audit strategy appropriately incorporates input from those charged with governance.

Audit scope

The scope of the audit is determined by the National Audit Office's Code of Audit Practice that sets out what local auditors are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. This includes auditing the financial statements and, where appropriate, exercising the auditor's wider reporting powers and duties.

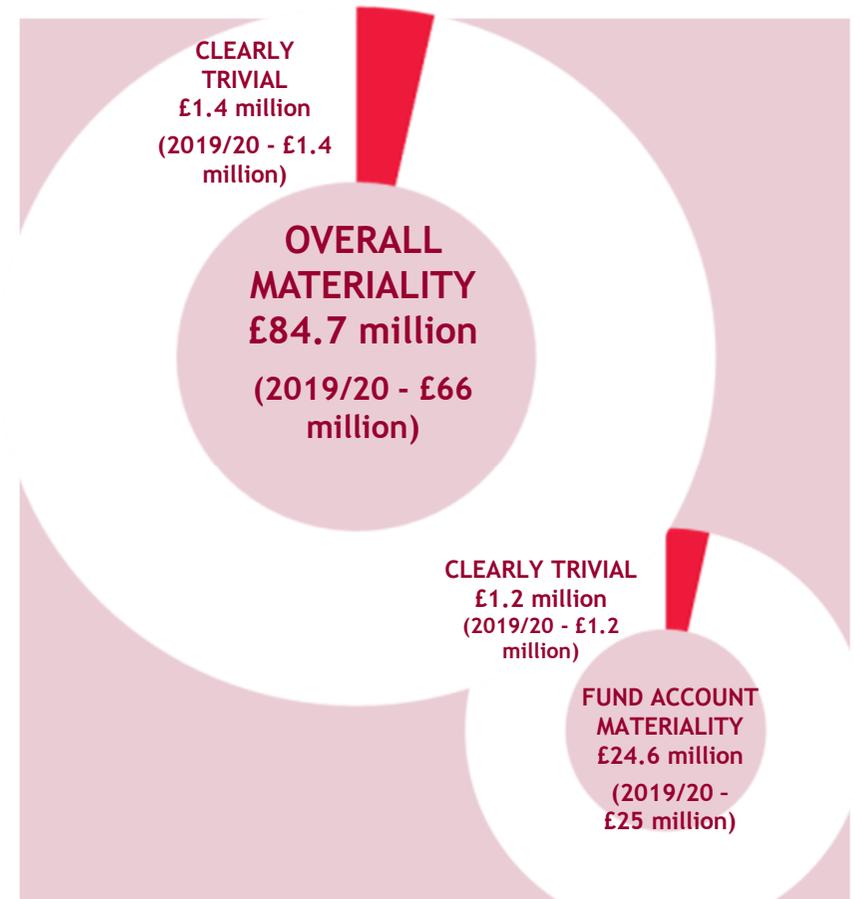
Our approach is designed to ensure we obtain the requisite level of assurance in accordance with applicable laws, appropriate standards and guidance issued by the National Audit Office.

Materiality

Planning materiality for the Pension Fund financial statements will again be set at 1% of net assets. Specific materiality (at a lower level) may be considered appropriate for certain financial statement areas and we set materiality for the Fund Account at 7.5% of gross expenditure.

At this stage, these figures are based on current estimated net assets (£8.475bn) and Fund expenditure (£328m). This will be revisited when the draft financial statements are received for audit.

Although materiality is the judgement of the engagement lead, the Audit, Governance and Standards Committee is obliged to satisfy themselves that the materiality chosen is appropriate for the scope of the audit.



AUDIT STRATEGY

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Our audit strategy is predicated on a risk based approach, so that audit work is focused on the areas of the financial statements where the risk of material misstatement is assessed to be higher, or where there is a risk that the organisation has not made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We have undertaken preliminary planning and risk assessment procedures to derive the risk profile reported in this Audit Planning Report. Further, more detailed discussions on any changes to systems and controls in the year will be held in order to update our understanding of the Pension Fund's activities and to refine our risk assessment relating to the numbers and disclosures in the financial statements. We will continue to update this assessment throughout the audit and report any changes to the Audit, Governance and Standards Committee.

The table on the next page summarises our planned approach to audit risks identified.

There has been no significant change to audit risks identified or their classification as compared to the prior year. All material areas will be subject to a substantive approach.

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Risk identified	Risk rating	Fraud risk present	Testing approach	Impact of significant judgements and estimates
Management override of controls	Significant	Yes	Substantive	Medium
Valuation of investments (unquoted and direct property investments)	Significant	No	Substantive	High
Pension liability valuation	Significant	No	Substantive	High
Valuation of investments (pooled investments)	Normal	No	Substantive	Medium
Contributions receivable	Normal	No	Substantive	Medium



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Independence

We confirm that the firm complies with the Financial Reporting Council's Ethical Standard for Auditors and, in our professional judgement, is independent

Fees

	2020/21	2019/20
Code audit fee	¹ £28,000	£28,000
Additional fee for IAS19 assurance requests from scheduled bodies	² £6,500	£12,250
Additional audit fee: Covid-19 remote working	³ £5,000	-
Total audit fees	£39,500	£40,250

Fee variances

¹The Code fee remains the PSAA Scale plus the £3,925 added from 2019/20 reflecting the increased expectations relating to the work necessary to audit the judgemental components of the pension fund.

²Assurance fees

The 2019/20 audit included cyclical costs relating to the audit of the 2019 triennial actuarial data cleansing exercise. These should not be necessary again until the 2022/23 audit.

³Covid-related costs

This represents an estimate of the additional resource time and costs necessary when audits are undertaken remotely. The 15% is at the lowest end of the 15-20% range experienced by BDO and the other audit firms. If we are able to undertake some key work on site, the time reflected here should reduce and the fee level decrease accordingly.

Amendments to the proposed fees

If we need to propose any amendments to the fees during the course of the audit, where our assessment of risk and complexity are significantly different from those reflected in the proposed fee or where we are required to carry out work in exercising our additional powers and duties, we will first discuss this with the Council. Where this requires a variation to the scale fee set by PSAA we will seek approval from Public Sector Audit Appointments Limited (PSAA). If necessary, we will also prepare a report outlining the reasons why the fee needs to change for discussion with the Audit, Governance and Standards Committee.



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Key components of our audit objectives and strategy for the Pension Fund are highlighted and explained on the following pages.

Audit planning is a collaborative and continuous process and our audit strategy, as reflected here, will be reviewed and updated as our audit progresses.

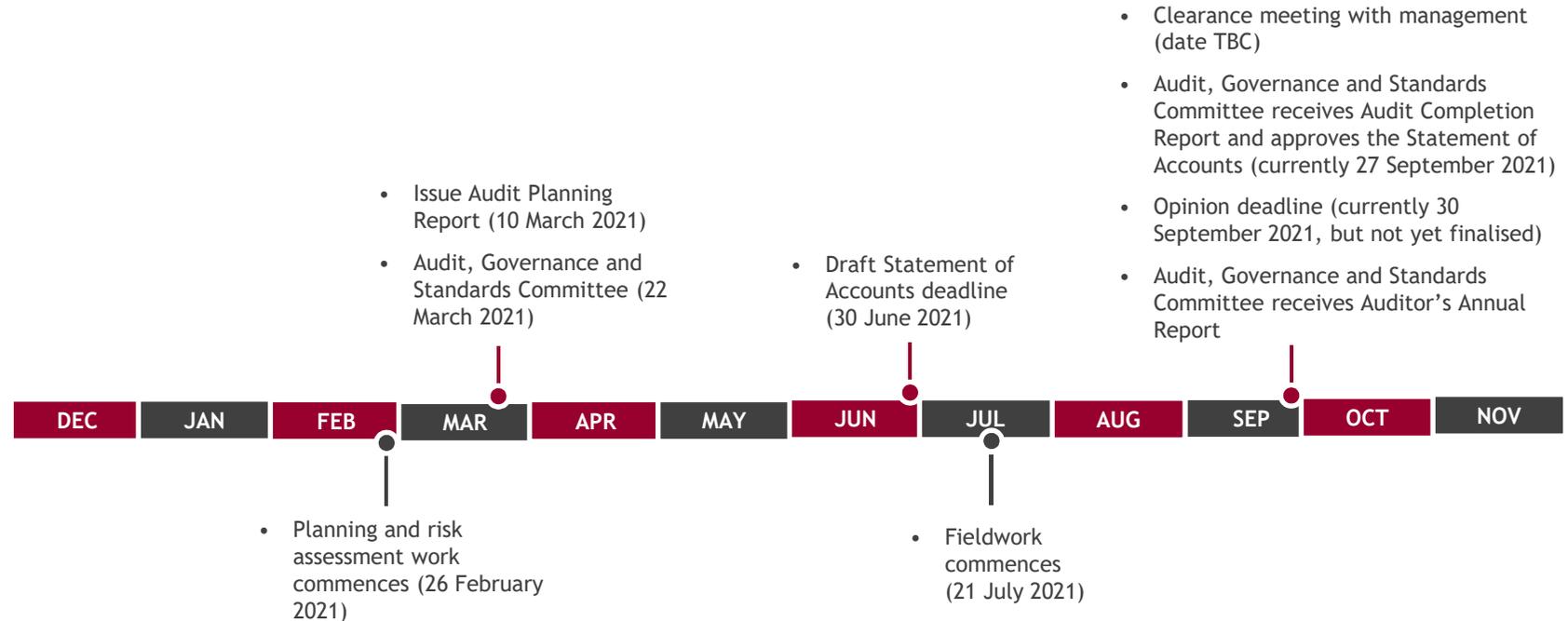
We will communicate any significant changes to our audit strategy, should the need for such change arise.

Reporting	Objectives
Auditing standards	We will perform our audit in accordance with International Standards on Auditing UK (ISAs (UK)) and relevant guidance published by the National Audit Office.
Financial statements	We will express an opinion on the Pension Fund financial statements, prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting 2020/21 and other directions.
Statement of Accounts	In addition to our objectives regarding the financial statements, we will also read and consider the other information contained in the Statement of Accounts to consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.
Annual Report	We will review the Pension Fund Annual Report and report on the consistency of the Pension Fund financial statements within the Annual Report with the Pension Fund financial statements in the Statement of Accounts.
Audit Completion Report to the Audit, Governance and Standards Committee	Prior to the approval of the financial statements, we will discuss our significant findings with the Audit, Governance and Standards Committee. We will highlight key accounting and audit issues as well as internal control findings and any other significant matters arising from the audit.

AUDIT TIMELINE

An overview of the key dates

At the time of drafting this Audit Planning Report, the deadlines for preparing and publishing local authority accounts are subject to consultation, as part of the Government's response to Sir Tony Redmond's review. The consultation proposes pushing back the final accounts publication date to 30 September 2021 and requiring draft accounts to be published on or before 1 August 2021, together with a new requirement for local bodies to provide an explanation on their website if they miss the revised draft publication date.



The timeline set out above would be extremely challenging to achieve. This is because of a number of issues, not least of which are the delays and reduced scope of any interim work that can be achieved to pull audit testing out of the final phase, the additional time working remotely takes, a later final audit start date and notable additional work pressures linked to the introduction of the new NAO Code of Audit Practice. Notwithstanding these issues, we consider it is necessary to aim for the currently proposed statutory publication deadline. If this is pushed back, our preference would be to revisit this timeline to agree a less pressured programme that has reduced risk of missing the target dates.

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David Eagles
Engagement Lead

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As audit engagement lead I have primary responsibility to ensure that the appropriate audit opinion is given. In meeting this responsibility I ensure that the audit has resulted in obtaining sufficient and appropriate evidence to provide reasonable, but not absolute, assurance that the financial statements are free from material misstatement, whether due to fraud or error, and to report on the financial statements and communicate as required by the ISAs (UK), in accordance with our findings.

I am responsible for the overall quality of the engagement and am supported by the rest of the team as set out here.



Barry Pryke
Senior Manager

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I will lead on the audit of the Pension Fund. I work closely with David to develop and execute the audit strategy. I will be a key point of contact on a day to day basis and will ensure that timelines are carefully managed to ensure that deadlines are met and matters to be communicated to Management and the Audit, Governance and Standards Committee are highlighted on a timely basis.



Deborah Antoine,
Assistant Manager

I will be responsible for the day to day supervision of the audit team, and will be responsible for the delivery of the key audit work.

OVERVIEW

Audit risks

We have assessed the following as audit risks. These are matters assessed as most likely to cause a material misstatement in the financial statements or impact on our use of resources opinion and include those that will have the greatest effect on audit strategy, the allocation of audit resources and the amount of audit focus by the engagement team.

Key: **Significant** / **Normal**

Description of risk	Significant risk	Normal risk	Overview of risk
1. Management override of controls			ISA (UK) 240 presumes that management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
2. Valuation of investments (unquoted and direct property investments)			There is a risk that unquoted and direct property investments are not appropriately valued in the financial statements due to significant level of assumption and estimation involved in the valuation of these assets.
3. Pension liability valuation			There is a risk the valuation is not based on appropriate membership data where there are significant changes or uses inappropriate assumptions to value the liability.
4. Valuation of investments (pooled investments)			There is a risk that pooled investments may not be appropriately valued and correctly recorded in the financial statements.
5. Contributions receivable			There is a risk that employers may not be calculating contributions correctly and paying over the full amount dues (on normal and deficit rates).

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Auditing standards presume that management is in a unique position to perpetrate fraud by overriding controls.

- Significant risk
- Normal risk
- Fraud risk
- Assess design & implementation of controls to mitigate
- Significant Management estimates & judgements
- Controls testing approach
- Substantive testing approach
- Risk highlighted by Council

Risk detail

- Management has the ability to manipulate accounting records and override controls that otherwise appear to be operating effectively. We are required to consider this as a significant risk of material misstatement due to fraud.

Planned audit approach

Our audit procedures will include the following:

- Review and verification of journal entries made in the year, agreeing the journals to supporting documentation. We will determine key risk characteristics to filter the population of journals. We will undertake necessary procedures to validate the data extraction undertaken and use our IT team to assist with transferring the journal extraction into BDO Advantage for audit use;
- Review of estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias; and
- Review the nature and causes of of any unadjusted audit differences for indications of bias or deliberate misstatement.

VALUATION OF INVESTMENTS (UNQUOTED AND DIRECT PROPERTY INVESTMENTS)

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The valuation of unquoted and direct property investments is a significant risk as it involves a high degree of estimation uncertainty.

- Significant risk
- Normal risk
- Fraud risk
- Assess design & implementation of controls to mitigate
- Significant Management estimates & judgements
- Controls testing approach
- Substantive testing approach
- Risk highlighted by Council

Risk detail

- The investment portfolio includes unquoted private equity, debt, infrastructure and timberlands which are valued by the fund managers. The pension fund also makes direct investments in freehold and leasehold properties which are based on valuations received from the fund managers. The valuation of these assets may be subject to a significant level of assumption and estimation, and valuations may not be based on observable market data. Due to significance of these valuations, even a small change in assumptions and estimates could have a material impact on the financial statements.
- In some cases, the valuations are provided at dates that are not coterminous with the pension fund’s year end and need to be updated to reflect cash transactions (additional contributions or distributions received) since the latest available valuations. Due to current market volatility the valuation received can quickly become outdated.
- As a result, we consider there to be a significant risk that investments are not appropriately valued in the financial statements.

Planned audit approach

Our audit procedures will include the following:

- Obtain direct confirmation of investment valuations from the fund managers and request copies of the audited financial statements (and member allocations) from the fund;
- Review the valuation completed by the fund manager and any significant assumptions made in the valuation;
- For property valuations, we will agree input data used by the valuer such as agreeing rental information to the underlying rental agreements, and will review the rental yields against the comparable data and indices for reasonableness;
- Where the financial statement date supporting the valuation is not coterminous with the pension fund’s year end, confirm that appropriate adjustments have been made to the valuations in respect of additional contributions and distributions with the funds; and
- Ensure investments have been correctly valued in accordance with the relevant accounting policies.

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The valuation of the pension liability is a significant risk as it involves a high degree of estimation uncertainty

Significant risk	■
Normal risk	—
Fraud risk	—
Assess design & implementation of controls to mitigate	■
Significant Management estimates & judgements	■
Controls testing approach	—
Substantive testing approach	■
Risk highlighted by Council	—

Risk detail

An actuarial estimate of the pension fund liability to pay future pensions is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the Pension Fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.

The most recent actuarial valuation of the pension fund liability was carried out during the 2019/20 year to calculate the liability as at 31 March 2019. This involved the provision of membership and cash flow data from the pension fund to the actuary, data cleansing by the actuary and re-setting the financial and actuarial assumptions related to the valuation. The estimate of the pension fund liability at 31 March 2021 is based on a roll-forward of data from the 2019 triennial valuation, updated where necessary.

There is a risk the valuation disclosed in the notes to the Pension Fund accounts is not based on appropriate membership data (where there are any significant changes) or uses inappropriate assumptions to value the liability.

Planned audit approach

Our audit procedures will include the following:

- Reviewing the controls in place to ensure that the data provided from the fund to the actuary is complete and accurate;
- Test a sample of transfers and cash flow data sent to the actuary for existence and accuracy;
- Reviewing the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data. We will use the PwC consulting actuary report for the review of the methodology of the actuary and reasonableness of the assumptions;
- Check whether any significant changes in membership data have been communicated to the actuary; and
- Agreeing the disclosure to the information provided by the actuary.

VALUATION OF INVESTMENTS (POOLED INVESTMENTS)

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There is a risk that pooled investments may not be appropriately valued and correctly recorded in the financial statements.

Significant risk
Normal risk
Fraud risk
Assess design & implementation of controls to mitigate
Significant Management estimates & judgements
Controls testing approach
Substantive testing approach

Risk detail

- The fair value of funds (principally pooled investments) is provided by individual fund managers and reviewed by the Custodian (Northern Trust). These valuation are reported on a monthly/ quarterly basis although there may be amendments to the ‘flash’ valuations initially provided and subsequent final valuations that may be received after the draft accounts have been prepared.
- There is a risk that investments may not be appropriately valued and correctly recorded in the financial statements.

Planned audit approach

Our audit procedures will include the following:

- Obtain direct confirmation of investment valuations from the fund managers including any subsequent final valuations to ‘flash’ valuations in the draft accounts;
- Ensure that investments have been correctly valued in accordance with the relevant accounting policies; and
- Obtain independent assurance reports over the controls operated by both the fund managers and custodian for valuations and existence of underlying investments in the funds.

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There is a risk that employers may not be calculating contributions correctly and paying over the full amount due to the pension fund.

Significant risk
Normal risk
Fraud risk
Assess design & implementation of controls to mitigate
Significant Management estimates & judgements
Controls testing approach
Substantive testing approach

Risk detail

- Employers are required to deduct amounts from employee pensionable pay based on tiered pay rates and to make employer normal and deficit contributions in accordance with rates agreed with the actuary.
- Additional contributions are also required against pension strain for unreduced pensions for early retirements and augmentation of pensions.
- There is a risk that employers may not be calculating contributions correctly and paying over the full amount due to the pension fund.

Planned audit approach

Our audit procedures will include the following:

- Test a sample of normal contributions due (and additional deficit contributions where included in a higher employer rate) for active members including checking to employer payroll records;
- Review contributions receivable and ensure that income is recognised in the correct accounting period where the employer is making payments in the following month; and
- Carry out audit procedures to review contributions income in accordance with the Actuary’s Rates and Adjustments Certificate, including specified increased rates to cover the minimum contributions to be paid as set out in the Certificate.

GOING CONCERN

Management are required to make an assessment of the Pension Fund's ability to continue as a going concern.

Management's responsibilities

It is Management's responsibility to make an assessment of the Pension Fund's ability to continue as a going concern to support the basis of preparation for the financial statements and disclosures in the financial statements. This is a requirement of the accounting standards.

This assessment should be supported by detailed cash flow forecasts with clear details of the key underlying assumptions, consideration of available finance throughout the forecast period, and a consideration of the forecast's sensitivity to reasonably possible variations in those assumptions along with any other relevant factors.

The going concern assessment should cover a minimum of 12 months from the date of the approval of the financial statements. However, consideration should also be given to any major events or circumstances that may fall outside this period.

Audit responsibilities

Our responsibilities in respect of going concern are:

- (a) To obtain sufficient appropriate audit evidence regarding, and conclude on, i) whether a material uncertainty related to going concern exists; and ii) the appropriateness of Management's use of the going concern basis of accounting in the preparation of the financial statements
- (b) To report in accordance with ISA (UK) 570.

We will obtain an understanding of the business model, objectives, strategies and related business risk, the measurement and review of the Pension Fund's financial performance including forecasting and budgeting processes and the risk assessment process. We will evaluate:

- a) The method, including the relevance and reliability of underlying data used to make the assessment, whether assumptions and changes to assumptions from prior years are appropriate and consistent with each other
- b) The plans for future actions in relation to the going concern assessment including whether such plans are feasible in the circumstances
- c) The adequacy and appropriateness of disclosures in the financial statements regarding the going concern assessment and any material uncertainties that may exist.

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Fraud

Whilst Management have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit approach includes the consideration of fraud throughout the audit and includes making enquiries of management and those charged with governance.

We request confirmation from the Audit, Governance and Standards Committee on fraud and a discussion on the controls and processes in place to ensure timely identification and action.

Management believe that there is low risk of material misstatement arising from fraud and that controls in operation would prevent or detect material fraud.

Accounting policies

We will report to you on significant qualitative aspects of your chosen accounting policies. We will consider the consistency and application of the policies and we will report to you where accounting policies are inconsistent with the CIPFA Code of Practice on Local Authority Accounting 2020/21 under the circumstances.

Significant accounting estimates and judgements

We will report to you on significant accounting estimates and judgements. We will seek to understand and perform audit testing procedures on accounting estimates and judgements including consideration of the outcome of historical judgements and estimates. We will report to you our consideration of whether management estimates and judgements are within an acceptable range.

Internal audit

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

We will review the reports issued by the Council's internal audit function to determine whether there are any weaknesses and/or risks that we should reflect in our risk assessment, although we do not plan place reliance on their work in respect of their assessment of control processes

Laws and regulations

We will consider compliance with laws and regulations. We will make enquiries of management and review correspondence with the relevant authorities.

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Related parties

Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for Management override or concealment or fraud. Our audit approach includes the consideration of related party transactions throughout the audit including making enquiries of management.

Financial statement disclosures

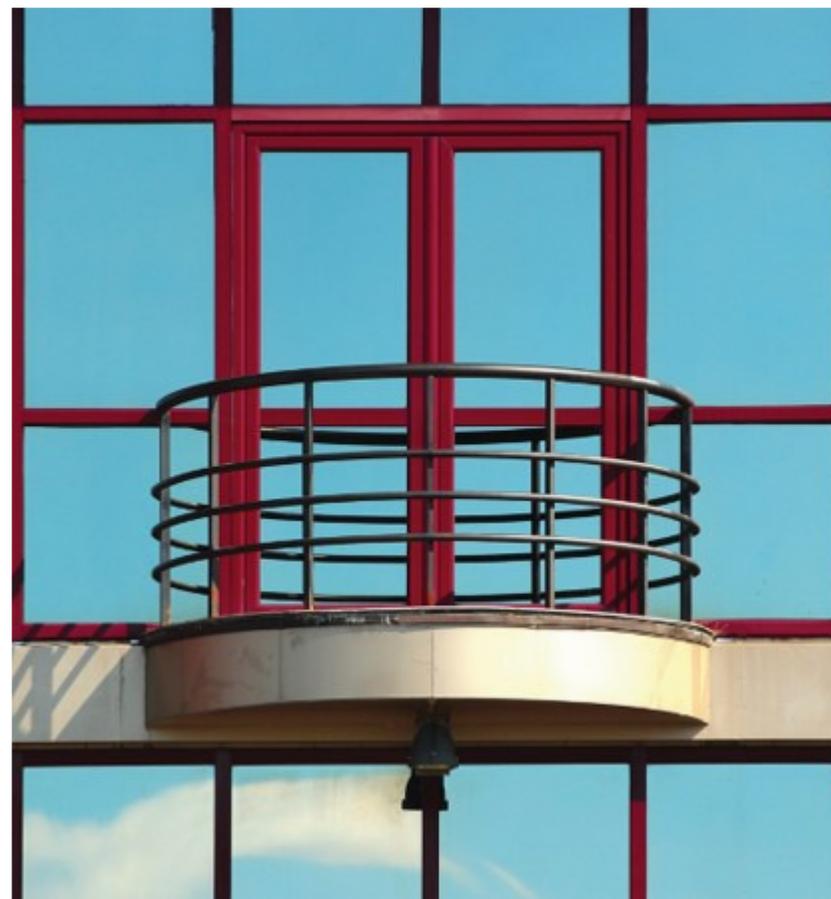
We will report to you on the sufficiency and content of your financial statement disclosures.

Contingencies

We request primary input from the Council's legal team and confirmation of the completeness and accuracy of disclosed elements from the Audit, Governance and Standards Committee on any recent claims.

Any other matters

We will report to you on any other matters relevant to the overseeing of the financial reporting process. Where applicable this includes why we consider a significant accounting practice that is acceptable under the financial reporting framework not to be the most appropriate.



IRREGULARITIES (INCLUDING FRAUD)

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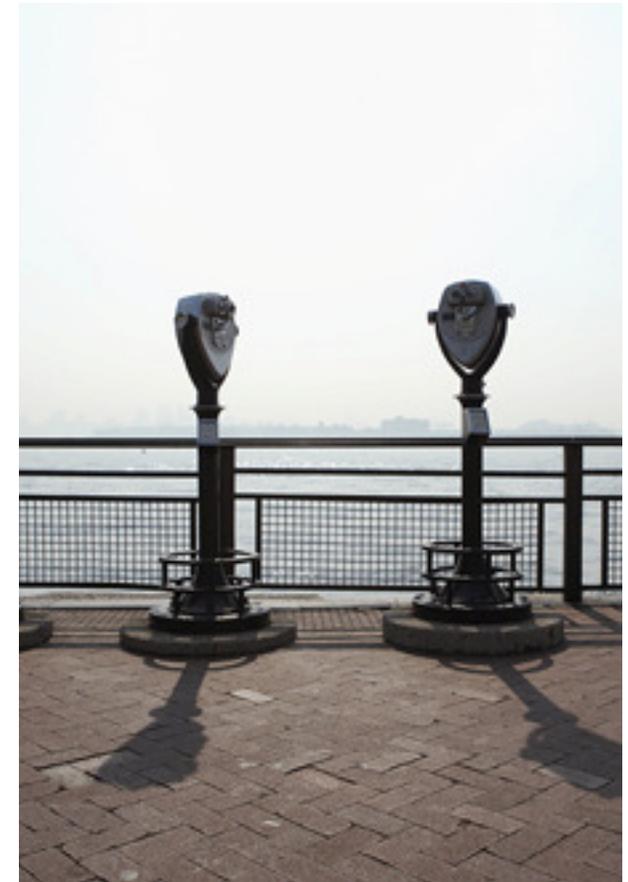
We are required to include in our auditor's report an explanation of the extent to which the audit is considered capable of detecting irregularities (non compliance with laws and regulations), including fraud.

Our audit is designed to provide reasonable assurance about whether the financial statements as whole a free from material misstatement whether due to fraud or error. We design audit procedures to respond to the risk of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and that irregularities that result from fraud might be inherently more difficult to detect than irregularities that result from error.

Our audit work will focus on laws and regulations that could give rise to a material misstatement in the Council's financial statements and may include, where appropriate:

- Obtaining an understanding of the control environment in monitoring compliance with laws and regulations
- Enquiries of management, those charged with governance and the Council's legal advisers
- Agreement of the financial statement disclosures to underlying supporting documentation
- Review of minutes of relevant Council and Pension Fund meetings throughout the year and of correspondence with regulatory authorities
- Written representations.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.



ACCOUNTING ESTIMATES

Revision to ISA (UK) 540 means that we may need to update our approach the audit of accounting estimates - including confirmation and documentation of our understanding of the Council's estimation process.

We will need to obtain an understanding of how you control your estimation process including not only the design and implementation of the process, but also the policies and procedures you put in place to satisfy yourself that each step in the process is properly applied, and that the resulting accounting estimates are reasonable.

For significant accounting estimates, particularly those that are complex or where there is a high degree of estimation uncertainty we will also make enquiries about how you:

- Make those responsible for deriving or changing your accounting estimates aware of relevant significant transactions, conditions or events
- Review the outcome(s) of previous accounting estimates and respond to the results of that review
- Identify and comply with the relevant requirements in the applicable financial reporting framework regarding your accounting estimates and related disclosures including how they are affected by complexity and your judgment
- Account for regulatory factors relevant to the Pension Fund's accounting estimates;, including, when applicable, regulatory frameworks related to prudential supervision
- Identify the need for, and apply, specialised skills or knowledge related to accounting estimates, including with respect to the use of a management's expert
- Identify and address risks related to accounting estimates through your risk assessment process

- Identify relevant methods (including models), assumptions and data and the need for changes in them and from those identified, and select those to apply
- Address the degree of estimation uncertainty in selecting your final point estimates
- Describe in your financial statements matters related to your process for deriving your accounting estimates, and matters related to the degrees of estimation uncertainty underlying your accounting estimates
- Ensure there is oversight and governance in place over management's financial reporting process relevant to accounting estimates.

Under ISA (UK) 540 (revised) our audit approach will involve a more granular risk assessment relating to each significant estimate and separate consideration of the methods (or models) applied in calculating the estimate, the nature, source and reliability of data used and the significance, consistency and appropriateness of assumptions made.

We will also request written representations from you regarding the reasonableness of the methods, significant assumptions and the data used in determining the monetary amounts of accounting estimates, including the related disclosures, in accordance with the CIPFA Code of Practice on Local Authority Accounting 2020/21.

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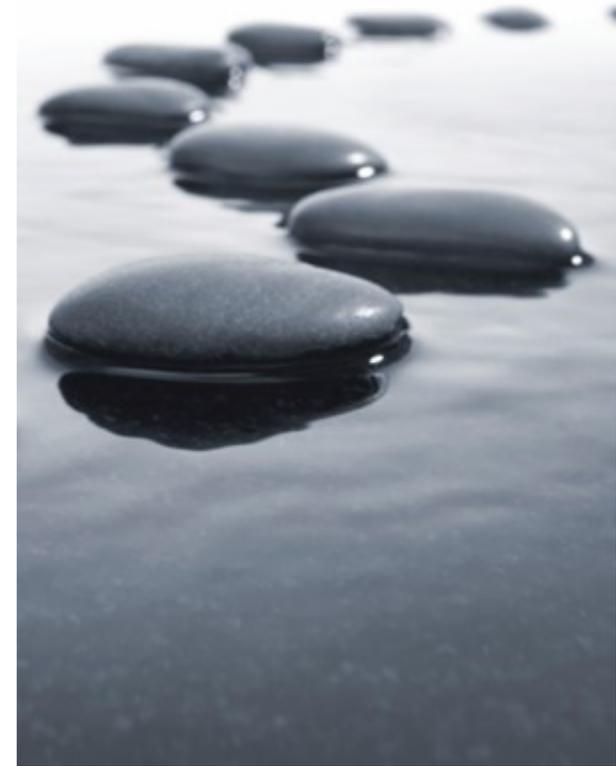
IT General Controls (ITGCs) are the policies and procedures that relate to many IT applications and support the effective functioning of application controls by helping to ensure the continued proper operation of information systems. They commonly include controls over data center and network operations; system software acquisition, change and maintenance; access security; and application system acquisition, development, and maintenance.

ITGCs are an important component in systems of internal control, and sometimes have a direct impact on the reliability of other controls.

IT assurance is embedded in our audit strategy to ensure the IT systems provide a suitable platform for the control environment and is undertaken in conjunction with our IT Assurance team. Our testing strategy includes a tailored range of data analytics, system configuration and IT environment testing.

We will also obtain an understanding of the information system, including the related business processes relevant to financial reporting, to include:

- Oracle (general ledger, accounts receivable, accounts payable and payroll); and
- Capita 360 Pay (income receipting)



FRC ETHICAL STANDARD (DECEMBER 2019)

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In December 2019 the FRC published the Revised Ethical Standard 2019 ('ES'), which is applicable from 15 March 2020. There are some transitional provisions for services and arrangements that are not currently prohibited under the existing Standard. The ES aims to further strengthen auditor independence and enhance confidence in the profession. The table below provides a high level summary of the key headlines as applicable to our audit of the Council.

Key headlines	Impact
The objective, reasonable & informed third party test	Reinforcement that ethical principles take priority over rules. A need to take care where particular facts and circumstances are either not addressed directly by the rules or might appear to 'work around' the rules, or result in an outcome that is inconsistent with the general principles.
Contingent fees	Non-audit services with contingent or success-based fee arrangements will be prohibited for audited entities.
Secondments	All secondments/loan staff to audited entities are prohibited with the exception of secondments to public sector entities.
Recruitment and remuneration services	Prohibition on providing remuneration services to audited entities such as advising on the quantum of the remuneration package or the measurement criteria for calculation of the package. In addition, the prohibition on providing recruitment services to an audited entity that would involve the firm taking responsibility for, or advising on the appointment of, any director or employee of the entity.

INDEPENDENCE

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Under ISAs (UK) and the FRC's Ethical Standard we are required, as auditors, to confirm our independence.

We have embedded the requirements of the auditing standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement leads are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement.

This document considers such matters in the context of our audit for the year ending 31 March 2021.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the Council and Pension Fund.

We also confirm that we have obtained confirmation that external audit experts involved in the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the Council and the Pension Fund.

Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

Non-audit services

Details of services, other than audit, provided by us to the Pension Fund during the period and up to the date of this report are set out in the fees table on page 7.

Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

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Financial reporting

The Council is expected to have effective governance arrangements to deliver its objectives. To this end, the publication of the financial statements is an essential means by which the Council accounts for its stewardship and use of the public money at its disposal.

The form and content of the Council's and Pension Fund's financial statements, and any additional schedules or returns for consolidation purposes, should reflect the requirements of the relevant accounting and reporting framework in place and any applicable accounting standards or other direction under the circumstances.

The Section 151 Officer is responsible for preparing and filing a Statement of Accounts and financial statements which show a true and fair view in accordance with CIPFA Code of Practice on Local Authority Accounting 2020/21, applicable accounting standards or other direction under the circumstances.

Our audit of the financial statements does not relieve management nor those charged with governance of their responsibilities for the preparation of materially accurate financial statements.

OUR RESPONSIBILITIES

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Our responsibilities and reporting - financial reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your financial statements. We report our opinion on the financial statements to the members of the Council.

We read and consider the ‘other information’ contained in the Annual Report such as the additional narrative reports. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

What we don't report

Our audit is not designed to identify all matters that may be relevant to the Council and the Audit, Governance and Standards Committee and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.



COMMUNICATION WITH YOU

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Those charged with governance

References in this report to ‘those charged with governance’ are to the Council as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Audit, Governance and Standards Committee.

Communication, meetings and feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered. We will meet with management throughout the audit process. We will issue regular updates and drive the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

Audit Planning Report

The Audit Planning Report sets out all planning matters which we want to draw to your attention including audit scope, our assessment of audit risks and materiality.

Internal Controls

We will consider internal controls relevant to the preparation of financial statements in order to design our audit procedures and complete our work. This is not for the purpose of expressing an opinion on the effectiveness of internal control.

Audit Completion Report

At the conclusion of the audit, we will issue an Audit Completion Report to communicate to you key audit findings before concluding our audit opinion. We will include any significant deficiencies in internal controls which we identify as a result of performing audit procedures. We will meet with you to discuss the findings and in particular to receive your input on areas of the financial statements involving significant estimates and judgements and critical accounting policies.

Once we have discussed the contents of the Audit Completion Report with you and having resolved all outstanding matters we will issue a final version of the report.

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These tables indicates the latest rotation periods normally permitted under the independence rules of the FRC’s Ethical Standard.

In order to safeguard audit quality we will employ a policy of gradual rotation covering the team members as well as other senior members of the engagement team to ensure a certain level of continuity from year to year.



Independence - engagement team rotation

Senior team members	Number of years involved	Rotation to take place after
David Eagles Engagement lead	3	5 years
Barry Pryke Senior Manager	1	10 years

Independence - audit quality control

	Number of years involved	Rotation to take place after
Engagement quality control reviewer	3	7 years

MATERIALITY: DEFINITION AND APPLICATION

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Concept and definition

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Materiality therefore has qualitative as well as quantitative aspects and an item may be considered material, irrespective of its size, if it has an impact on (for example):

- Narrative disclosure e.g. accounting policies, going concern
- Instances when greater precision is required (e.g. disclosure of senior officers’ remuneration and related party transactions).

International Standards on Auditing (UK) also allow the auditor to set a lower level of materiality for particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Calculation and determination

We have determined materiality based on professional judgement in the context of our knowledge of the Pension Fund, including consideration of factors such as industry developments, financial stability and reporting requirements for the financial statements.

We determine materiality in order to:

- Assist in establishing the scope of our audit engagement and audit tests
- Calculate sample sizes
- Assist in evaluating the effect of known and likely misstatements on the Group financial statements.

Reassessment of materiality

We will reconsider materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality if we had been aware.

Further, when we have performed all our tests and are ready to evaluate the results of those tests (including any misstatements we detected) we will reconsider whether materiality combined with the nature, timing and extent of our auditing procedures, provided a sufficient audit scope.

Definition of materiality under IFRS

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

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If we conclude that our audit scope was sufficient, we will use materiality to evaluate whether uncorrected misstatements (individually or in aggregate) are material.

You should be aware that any misstatements that we identify during our audit, both corrected and uncorrected errors, might result in additional audit procedures being necessary.

Unadjusted errors

We will communicate to you all uncorrected misstatements identified during our audit, other than those which we believe are ‘clearly trivial’.

Clearly trivial is defined as matters which will be of a wholly different (smaller) order of magnitude than the materiality thresholds used in the audit, and will be matters that are clearly inconsequential, whether taken individually or in aggregate.

We will obtain written representations from the Audit, Governance and Standards Committee confirming that in their opinion these uncorrected misstatements are immaterial, both individually and in aggregate and that, in the context of the financial statements taken as a whole, no adjustments are required.

We will request that you correct all uncorrected misstatements. In particular we would strongly recommend correction of errors whose correction would affect compliance with contractual obligations or governmental regulations. Where you choose not to correct all identified misstatements we will request a written representation from you setting out your reasons for not doing so and confirming that in your view the effects of any uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as whole.

NEW ACCOUNTING STANDARDS, AUDITING STANDARDS AND OTHER FINANCIAL REPORTING DEVELOPMENTS

We would like to draw to your attention the following summary of key changes to standards, regulations and other financing reporting developments, their effective dates and an indication, based on preliminary discussions with management and our sector understanding, of their possible effect on the annual report.

New Accounting Standards, Auditing Standards and Other Financial Reporting Developments	Expected effect				Effective for periods beginning on or after 1 January	
	None	Low	Medium	High	2020	2021
Auditing standard - audit of accounting estimates						
Increased emphasis on understanding management’s processes, systems and controls estimation uncertainty and financial statement disclosures			●		●	
Auditing standard - going concern						
Increased emphasis on evaluation of management’s assessment of the entity’s ability to continue as a going concern			●		●	
Auditing standard - audit reports						
New audit report format with updated conclusion on going concern and reference to irregularities, including fraud			●		●	

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Overview

The FRC released their Audit Quality Review results for the 7 largest accountancy firms in July 2020 for the review period 2019/20. A copy of all of the reports can be found on the [FRC Website](#).

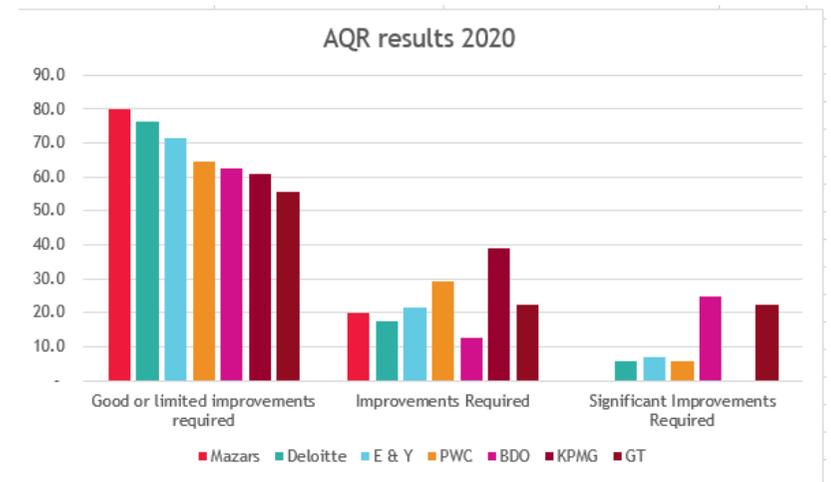
Firm's Results

The graphs demonstrates our performance in relation to the other 6 largest firms. Having topped the table for audit quality for the last two consecutive years, we are disappointed to see a decline in our results. These scores remind us we must remain committed to continuous improvements and, having carefully considered the root causes of the AQR findings, we are in the process of implementing detailed action plans where required. We have made a number of enhancements to our Audit Quality Plan to address these issues to drive our key focus of a continuous improvement in audit quality including highlighting how we will make changes to our root cause analysis process which plays a key role.

We would encourage you to read our report which includes:

- Details of the root cause analysis we have been undertaking to address issues raised
- The actions we have/are undertaking to address the issues raised by the AQR
- A number of areas of good practice the AQR review team identified whilst undertaking their review.

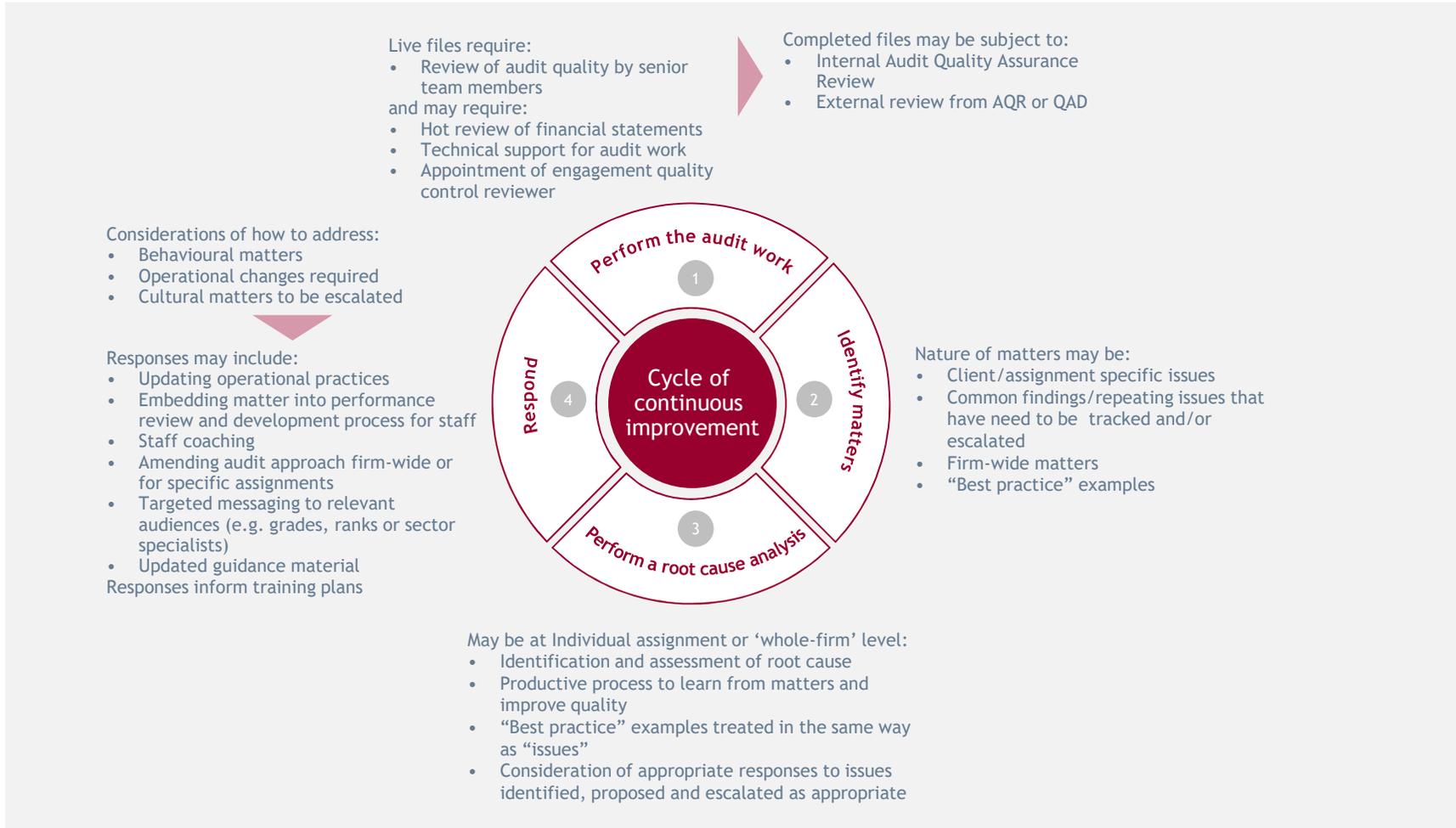
More details will be included in our Transparency Report which will be available on our www.bdo.co.uk



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Report title: Regulation of Investigatory Powers Act 2000 : Review of Activity	
Report to: Audit, Governance and Standards Committee	
Report author: Paul Turner, Director, Legal and Assurance	
Date: 22 March 2021	For: Noting
Enquiries to: Paul Turner – Director, Legal and Assurance paul.turner@essex.gov.uk	
County Divisions affected: All Essex	

1. Introduction

- 1.1 This report informs the Committee that **no applications** for authorisation to undertake Directed Surveillance or use a CHIS have been made since the last written report to the Committee in March 2020.

2. Recommendations

- 2.1 That the Committee notes that no applications for directed surveillance or the use of a CHIS have been made by anyone at ECC since the last report in March 2020.

3. Background

Regulation of Investigatory Powers Act 2000

- 3.1 The Council operates many statutory services which have an element of enforcement. Most such activities are undertaken within the trading standards service, but the need for investigations may arise within the highways service and, at least in theory, within social services. All these matters may involve serious wrongdoing.
- 3.2 As part of an investigation the Council may occasionally want to undertake surveillance or use an informant. The Regulation of Investigatory Powers Act 2000 states that these activities are always lawful if they are authorised in accordance with the Act. These activities did not previously have a statutory basis and although there was no law against these activities, there was an argument that the lack of a statutory basis mean that there was a risk of infringing the ‘right to respect for private and family life’ – a right which is enshrined in the European Convention on Human Rights and Fundamental Freedoms.

- 3.3 The Act originally provides for local authorities to undertake these activities if properly authorised, and if it is necessary and proportionate to prevent or detect serious crime. Serious crime means offences which carry a maximum penalty of 6 months imprisonment (or underage sale of alcohol or tobacco to minors). Since 2012 the council has been required to obtain approval from a magistrate before an authorisation takes effect.
- 3.4 The Council is subject to regular inspections by Surveillance Inspectors appointed by the Chief Surveillance Commissioner to ensure that the Council is properly authorising activities and also ensuring that frontline staff are aware of which activities need to be authorised.

The Council's Surveillance Activity

- 3.5 The Council does not generally undertake surveillance or use CHISs which needs to be authorised under the Act. The last written report to the committee was made in March 2020, when a report that no authorisations had been sought or granted. Similarly, between March 2020 and March 2021 no authorisations have been sought or granted. The Council has worked with the police on joint operations. In these cases the Police would be expected to obtain the authorisation as their processes are more streamlined and do not require approval from a magistrate. In these cases Council officers satisfy themselves that they are covered by an authorisation issued by the Police.
- 3.6 The Council takes the view that the 'test purchasing' activities it undertakes by sending a minor to shops to purchase alcohol or tobacco do not need to be authorised under RIPA. This is because the activities take place in a public place and are undertaken overtly. This view has not been tested in court and some authorities take a more cautious approach.
- 3.7 The Council provides regular training to staff who may need to undertake enforcement activities to ensure that they are aware what needs to be authorised.

4. Financial Implications

- 4.1 Use of RIPA has no financial implications

5 Legal Implications

- 5.1 The legal implications of RIPA are set out in section 3 of this report. The Council may have to pay damages if interferes with someone's right to respect for their family and private life without such interference being authorised under RIPA. However, the risk of this is very low

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

None

8 List of Background Papers

Covert surveillance and property interference Code of Practice, dated August 2018
Covert human intelligence sources Code of Practice, dated August 2018

Report title: Internal Audit and Counter Fraud Progress Report	
Report to: Audit, Governance and Standards Committee	
Report author: Paula Clowes – Head of Assurance	
Date: 22 March 2021	For: Discussion
Enquiries to: Paula Clowes – Head of Assurance paula.clowes@essex.gov.uk	
County Divisions affected: All Essex	

1. Purpose of Report

- 1.1 The Audit Governance and Standards Committee has a role to maintain oversight and to monitor the effectiveness of internal controls, governance and risk management arrangements as well as the work of Internal Audit and Counter Fraud.
- 1.2 This report provides the Committee with the current position regarding activity in relation to the 2020/21 Internal Audit and Counter Fraud Plan (approved by the Audit, Governance and Standards Committee in July 2020). It reflects the situation as at 28 February 2021.
- 1.3 As part of the Committee's role to assess the adequacy of the Council's internal control environment, the Committee also receives regular updates on progress being made by service areas on whether timely and effective remedial action is being taken to resolve any significant control weaknesses that have been identified through our Internal Audit work.
- 1.4 The activity undertaken by Internal Audit and Counter Fraud in 2020/21, together with the work of other assurance providers, contributes to the Chief Audit Executive's overall annual opinion on the Council's systems of control for inclusion within the 2020/21 Annual Governance Statement.

2. Recommendation

- 2.1 The progress in audit and counter fraud activity be noted.
- 2.2 The changes to the 2020/2021 Internal Audit and Counter Fraud plan, as outlined in appendix 4, are approved.

3. Key Issues

- 3.1 The following matters are of particular note:
 - No reports received a 'No Assurance' rating during the period

- One audit was finalised in December 2020 and received a ‘Limited Assurance’ rating – Libraries – Stock, Fees and Charges. The Head of Service is attending this meeting to report on progress
- As at 1 March 2021, six Major Internal Audit recommendations are more than one month overdue and 38 Moderate recommendations are more than 6 months overdue.
- A full review of the 2020/2021 Internal Audit and Counter Fraud Plan was conducted in December 2020. The changes are outlined in appendix 4 of this report. The Committee are asked to approve these changes

4. Details of Internal Audit and Counter Fraud Activity

4.1 Final Internal Audit Reports Issued

4.1.1 When Internal Audit issues a report it gives an overall assurance rating which is either ‘Good’ ‘Satisfactory’ ‘Limited’ or ‘No’ Assurance. Nine final reports have been issued since the November 2020 Audit, Governance and Standards Committee:

Assurance Rating	Audit Title
Good	Access Support Unit
Satisfactory	Journals and Virements
Satisfactory	Members Locality Fund
Satisfactory	Meaningful Lives Matter
Satisfactory	Health and Safety
Satisfactory	Essex Pay
Satisfactory	Employee Expenses
Limited	Libraries – Stock, Fees and Charges

In addition, we carried out a review of Output VAT for the following service areas:

- Essex Country Parks
- Essex Outdoor Centres
- Essex Records Office
- Essex Arts and Culture

The Executive Summary for the Limited Assurance review is included in Appendix 1. A representative of the Libraries Service is attending the March 2021 AGS Committee to provide an update on progress in implementing these recommendations.

In addition, we have completed the following grant claims:

- SCITT / Teacher Training Bursaries – a qualified opinion was provided
- LECSEA – Local Energy Communities for the Two Seas Region – no issues identified

4.2 Implementation of Internal Audit Recommendations

- 4.2.1 Whenever any recommendations are made in an audit report, Managers are asked to agree what activity they will undertake to address the recommendations and to agree timescales for implementation.
- 4.2.2 Progress on the implementation of recommendations is monitored by the Internal Audit service.
- 4.2.3 Critical or Major recommendations which have not been implemented within the agreed timescale are reported to the Audit, Governance and Standards Committee. Outstanding recommendations are also provided periodically to Functional Leadership Teams (FLT).
- 4.2.4 As at 1 March 2021 there were 3 Critical, 14 Major and 92 Moderate recommendations open, of which 6 Major are more than one month overdue and 38 Moderate recommendations are more than 6 months overdue. See Appendix 3 for further detail on the overdue Major recommendations.
- 4.2.5 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 2.

4.3 Changes to the 2020/2021 Internal Audit and Counter Fraud Plan

- 4.3.1 In December 2020 a full review of the 2020/2021 Internal Audit and Counter Fraud was carried out. This report is seeking committee approval for a number of changes to be made to the 20/21 the plan, in the main due to the impact on ECC services of the Covid-19 pandemic. The proposed changes have been notified to the Councils section 151 officer in line with the Internal Audit Charter. A full breakdown of the requested changes with rationale is attached at Appendix 4.

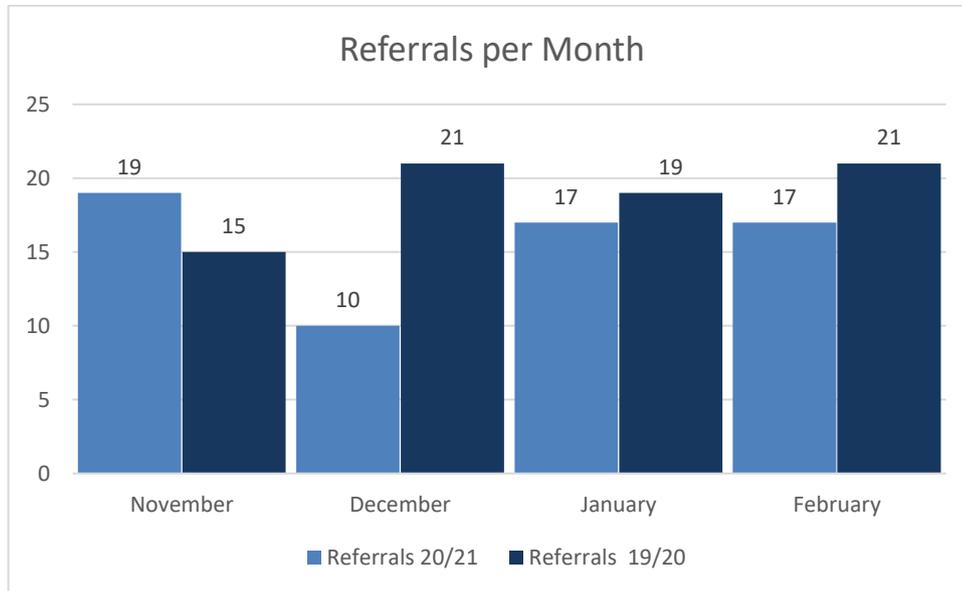
4.4 Counter Fraud Activity

- 4.4.1 The Counter Fraud Team has a remit to prevent, detect and investigate fraud. This includes proactive work utilising data matching and analytical work. In some cases we will pursue sanction through the civil or criminal courts and where possible seek to recover lost/stolen monies.

Fraud Referrals

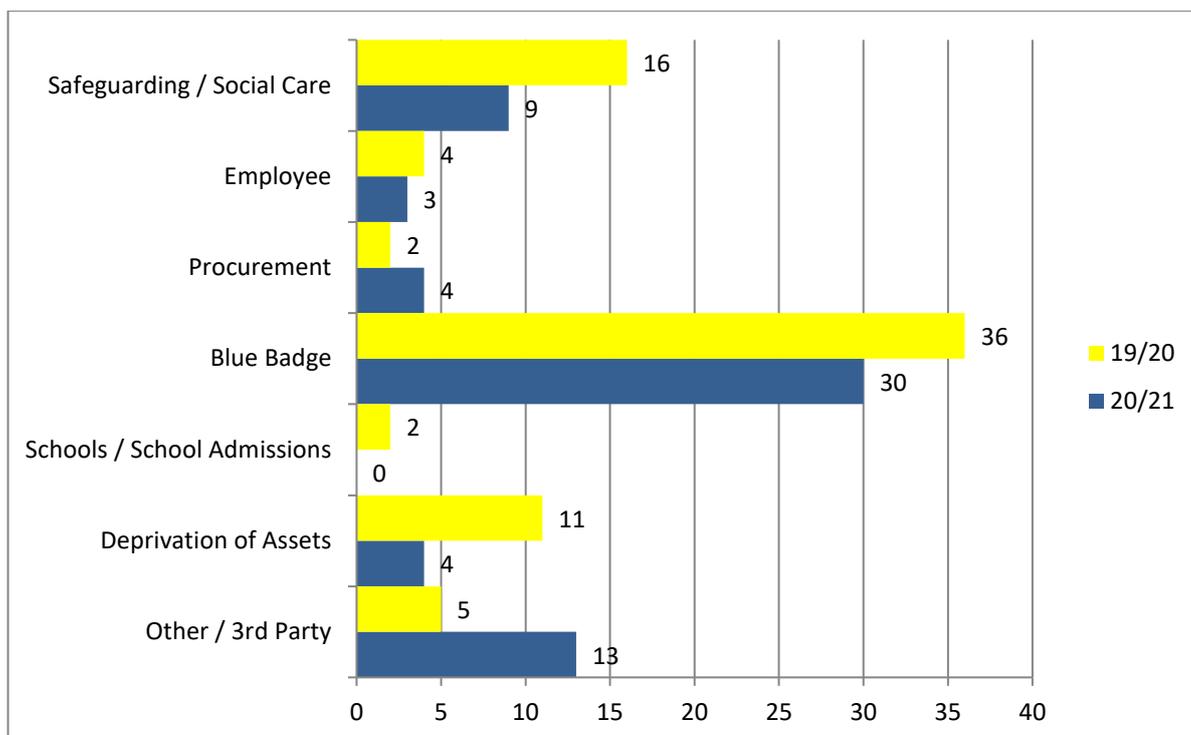
- 4.4.2 During the 4 month period 1 November 2020 to 28 February 2021, 63 referrals were received (including blue badge referrals). The table below shows how this compares to the same reporting period last year and demonstrates that

the number of referrals received this year is slightly lower than the numbers received last year (76 referrals were received during the reporting period November to February last year, a 4 month reporting period). Although the Counter Fraud Team experienced a reduction in the number of referrals received during the first few months of the pandemic, we are now experiencing a return to near normal levels for most areas although still a reduction in the number of Blue Badge related referrals.



Types of Referrals

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



Internal Data Matching

4.4.4 The Counter Fraud team includes a Data and Intelligence Specialist. Data matching / analytical work has been completed during the 4 month period in the following areas:

- Adult social care – an analysis of care packages to identify where domiciliary and residential care packages overlap and may not have been fully closed down on the system – testing is currently underway.
- Creditor payments – a review to identify whether one-off payments have been made to dormant providers (as a result of an issue identified as part of the Covid grant payments to providers).
- Payroll – a review of payroll deductions (as a result of a discrepancy in the calculation of payroll deductions)

Essex Council Tax Data Matching Initiative

4.4.5 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 cumulative savings recorded as at 28 February 2021 (from July 2017) are **£2,101,594**.

National Fraud Initiative Data Matching Exercise and NFI Fraud Hub

4.4.6 The National Fraud Initiative is a biennial exercise overseen by the Cabinet Office. This is a mandatory exercise which all public sector bodies participate

in, submitting prescribed data sets to the Cabinet Office to facilitate a national data matching exercise to be completed. The Counter Fraud Team have submitted all required datasets to the Cabinet Office during the beginning of October 2020. Several matches have been returned and are in the process of being investigated.

4.4.7 In addition to the mandatory data matching, the Counter Fraud Team subscribed to the NFI Fraud Hub in March 2020. Discretionary data matching is permitted on an ad hoc basis, using the same prescribed data sets as submitted as part of the national exercise. Data sets relating to Adult Social Care and Pensions have been uploaded and matched to the mortality listing. These matches have been investigated and where ECC had not been notified of the respective death, records have been updated and further payments have been prevented. This reduces the reputational damage to ECC by making payments after the date of death and also trying to pursue monies paid in error.

Note – the Cabinet Office are currently investigating the legislation regarding patient data. We are unable to submit adult social care datasets for matching purposes pending the results of this review.

Data in relation to ECC Pensions continues to be submitted on a monthly basis and resultant matches sent to the ECC Pension Team for investigation or suspension of benefits.

Fraud Awareness Training

4.4.8 At present, *81.4% of all ECC staff have completed the e-learning modules relating to:

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

**Note – several exemptions have been granted to ECC staff who do not have access to the intranet and e-learning modules, for example School - Crossing Patrol staff and peripatetic music tutors.*

Outcomes

4.4.10 During the period 1 November 2020 to 28 February 2021, the following outcomes and sanctions have been achieved:

Outcome Type	Q4 20/21	Q4 19/20
Prosecution	0	0
Written / Verbal Warning	0	1
No fraud established	4	7
Other outcome* / recovery of funds	0	7

Referred to third party	1	0
Blue Badges – Misuse letter issued	4	2
Blue Badges - Seized	2	3
ASC - Financial recovery	2	2
ASC - PB terminated	1	0
ASC - payment stopped / reduced	2	1

*Other outcomes include:

- Referrals to the Deputyship Team where Power of Attorney not in place,
- Revision of financial assessments where non-disclosure of assets or deprivation of assets identified,
- Additional guidance and support provided where potential misuse of personal budgets identified.

Financial Recoveries

4.4.11 In addition to the savings identified during the data matching exercise, this period, the following financial outcomes have been achieved:

Financial Recovery	1 December 2019 to 29 February 2020	1 November 2020 to 28 February 2021
	£	£
In recovery	5,130.87	13,244.20
Monies actually recovered	8,100.00	1,485.71
Potential future losses prevented	0.00	0.00
Estimated losses (unproven)	78,466.94	0.00
Total case value	91,697.81	14,729.91

The future losses prevented 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).

4.4.12 Notional savings of £1,150 have also been identified as 2 expired blue badges have been taken out of circulation, each badge being attributed a value of £575 (figure determined by the Cabinet Office).

5. Financial Implications

5.1 There are no financial implications as the Internal Audit and Counter Fraud activity 2020/21 will be met within existing resources.

6. Legal Implications

- 6.1 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.

7. Equality and Diversity Implications

- 7.1 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.
- 7.2 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.

8. List of Appendices

- Appendix 1 Executive Summary – Limited Assurance Report
Appendix 2 Current assessment rationale for grading the priority of recommendations in Internal Audit reports.
Appendix 3 Overdue Major Recommendations as at 1 March 2021
Appendix 4 Changes made to the 20/21 Audit Plan.

9. List of Background Papers

Internal Audit reports
Internal Audit and Counter Fraud Plan for 2020-21
Internal Audit Charter

Library Service - stock, fees and charges Final Internal Audit Report

Audit Plan Ref: CC2 2020/21

Audit Opinion:
Limited Assurance

Date Issued: 11 December 2020

Function: Corporate & Customer Services

Audit Sponsor: Suzanna Shaw – Director of Customer Services

Distribution List: Suzanna Shaw, Juliet Pirez – Head of Libraries Operations, All **Recommendation Owners** detailed in the Action Plan; **Margaret Lee** - Executive Director for Corporate and Customer Services, **Cllr Susan Barker** – Customer, Communities, Culture and Corporate, **Gavin Jones** – Chief Executive, **Cllr Finch** – Leader of the Council; and **Barry Pryke** - BDO External Auditors.



Assurance Opinion	No	Limited	Satisfactory	Good
		X		

Number of Issues	Critical	Major	Moderate	Low
		1	6	2

Audit Objective	Key Messages	Direction of Travel
<p>The audit objective was to assess whether there are adequately designed controls, operating consistently and effectively, to ensure the Library Service's processes in relation to stock control and the associated library loan charging mechanisms are robust and provide management with information to enhance the decision-making and forward planning process.</p>	<p>Whilst this audit highlights a number of issues around stock, fees and charges it should be noted that there has been a significant amount of work undertaken during 2019 and 2020, including a full stocktake of all Libraries during the closure of all sites during the Covid-19 pandemic (the first in more than 10 years) and the Service has recognised the issues and challenges it faces, but continues to prioritise the urgent and necessary work required.</p> <p>In late 2018/19, as part of the Libraries Organisational Redesign, a review of the Freebournes Stock and Distribution Facility was undertaken and the findings from this review led to further review of the stock management processes and procedures resulting in proposals being considered for stock procurement, stock management, collaborative working with central support teams and the libraries, service model efficiencies and localised stock management routines. Two new roles were created; a Special Operations Manager (warehousing, logistics and library stock management procedures) and a Customer Partner and Outreach (bookfund expenditure, procurement and high-level stock strategies).</p>	<p>Not applicable - This review is not consistent with any prior review.</p>
<p>Scope of the Review and Limitations</p> <p>This audit's focus was the stock control process and associated charging for all "loan types" e.g. books, DVDs, CDs etc., made by the Library Service.</p> <p><u>Scope limitations:</u> the following was not included: charges associated for different card types, administrative items e.g. library computer hire (Netloan), photocopying, room hire etc.</p> <p>Due to the current Covid 19 pandemic only one physical visit was undertaken to the Library Support Unit for a system walkthrough.</p>	<p>In conjunction with this Redesign in July 2019 the Library Service recruited a new Head of Libraries, Operations (permanent from February 2020) and improvements that needed to be made were identified at that time to the way stock was managed, including the need for a stock take and a proper data cleanse of the Library Management System, missing items, and how overdue stock is managed. At the time of this audit this work was being incorporated into a data cleanse work programme, to review all areas of stock, card holders, debt etc. with expected completion toward the end of 2020/21 enabling clean data to be migrated to the new Library Management System next year. It is expected that this will further resolve many of the current manual stock management processes, which are complicated, cumbersome and open to delays and errors, by automating them.</p> <p>Following the closure of all Libraries during the Covid-19 pandemic, the majority of income forecast has been removed from the Library Service budget. Central Government has developed a compensation scheme to help local authorities with lost sales, fees and charges and a report was submitted by Finance on 30 September 2020 claiming a net Library Service income loss of £437,000 for the period April to July 2020.</p>	

Current assessment rationale for grading the priority of recommendations in Internal Audit reports

Risk rating	Assessment rationale
 Critical	Critical and urgent in that failure to address the risk could lead to one or more of the following occurring: <ul style="list-style-type: none"> ▪ Significant financial loss (through fraud, error, poor value for money) ▪ Serious safeguarding breach ▪ Life threatening or multiple serious injuries ▪ Catastrophic loss of service ▪ Failure of major projects ▪ Critical Information loss leading to Information Commissioner’s Office (ICO) referral ▪ Reputational damage – Intense political and media scrutiny i.e. front-page headlines, television coverage. ▪ Possible criminal, or high profile, civil action against the Council, Members or officers. ▪ Intervention by external agencies <p>Remedial action must be taken immediately</p>
 Major	Major in that failure to address the issue or progress the work would lead to one or more of the following occurring: <ul style="list-style-type: none"> ▪ High financial loss (through fraud, error, poor value for money) ▪ Safeguarding breach ▪ Serious injuries or stressful experience requiring medical treatment, many work days lost. ▪ Significant disruption to service (Key outcomes missed, some services compromised. Management action required to overcome medium term difficulties) ▪ Major Information loss leading to internal investigation ▪ Reputational damage – Unfavourable external media coverage. Noticeable impact on public opinion. ▪ Scrutiny required by external agencies <p>Remedial action must be taken urgently</p>
 Moderate	Moderate in that failure to address the issue or progress the work would lead to one or more of the following occurring: <ul style="list-style-type: none"> ▪ Medium financial loss (through fraud, error or poor value for money) ▪ Significant short-term disruption of non-core activities ▪ Scrutiny required by internal committees. ▪ Injuries or stress level requiring some medical treatment, potentially some work days lost ▪ Reputational damage – Probable limited unfavourable media coverage. <p>Prompt specific action should be taken</p>
 Low	Low in that failure to address the issue or progress the work would lead to one or more of the following occurring: <ul style="list-style-type: none"> ▪ Low financial loss (through error or poor value for money) ▪ 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. ▪ Reputational damage – Internal review, unlikely to have a wider impact. <p>Remedial action is required</p>
Assurance Level	Description
Good	Good assurance – 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/Satisfactory	Adequate/satisfactory assurance – 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	Limited assurance – 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	No assurance – 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

Overdue Major Internal Audit Recommendations as at 1 March 2021

Audit Review Title	Function	Recommendation	Latest Target Date	Last Status Update	Owner	Rating
GDPR Compliance (1920 CC16)	Corporate and Customer	Training Completion (ref 86)	14/09/20	Last update as at 4 August 2020: eLearning modules have now been revised and our previous three modules have now been reduced to one slightly longer course. This course is designed to give the basic Information Governance training for all. This is also supported by further IG 'playlists' that can be accessed through My Learning. Anything more detailed will be communicated to targeted audiences. The eLearning modules have now been updated on the My Learning site, however we are now waiting for confirmation from Learning and Development when communication will be sent to staff regarding recertification. There have been delays with this action due to Covid-19, as much resource from IG and Learning and development had to be pulled.	Senior Information Governance Officer	Major
Essex Children Family and Wellbeing Service	Children, Families and Education	Safeguarding: assurance reporting and escalation processes (ref 166)	21/12/20	Last update as at 28 September 2020: This specific safeguarding action should be incorporated into the overall assurance framework for the contract and therefore will be resolved through the implementation of the wider suggested framework. Completion and implementation has been hampered by the pandemic. Specifically we were waiting for feedback from Essex Safeguarding colleagues into the level of input that is required for this action to be undertaken. In the meantime the Service do now provide a monthly detailed safeguarding report as part of the contract management process within the formal monthly contract oversight meeting. Additionally a Safeguarding monthly sub group of the ECFWS Contract meeting is in place. Attendance at this meeting includes the ECFWS Safeguarding Lead, the Designated Safeguarding Nurses from each of the Essex CCGs, and the ECC ECFWS Commissioner. The intention of the implementation of the Assurance Framework is to further improve this system wide approach and provide ECC with an greater level of assurance. Page 120 of 291	Director, Strategic Commissioning and Policy	Major

Audit Review Title	Function	Recommendation	Latest Target Date	Last Status Update	Owner	Rating
Review of Energy Invoice Processes (1920 PPH8)	Place and Public Health	Energy Profile Audits (ref 127)	31/12/20	Final report was issued in October 2020 and received a Limited Assurance opinion. No update provided since, however, an update will be provided to this committee meeting as a separate agenda item.	Head of Commercial Development	Major
Business Continuity (15/16 COR12)	Finance and Technology / Corporate and Customer	Third Party Dependencies (ref 24)	31/12/20	Last update as at 3 February 2021: This recommendation has recently changed owner as the remaining actions better sit with Procurement to implement.	Strategy and Assurance Lead, Procurement	Major
Accounts Receivable (1920 CC1 AR)	Finance and Technology	Management Information does not help compliance with the Collection Strategy and prioritise activity (ref 91)	31 July 2020	This Internal Audit review was finalised in July 2020. The Service Manager came to the AGS Committee in September 2020 to discuss this review as it received a Limited Assurance opinion. No further update has been provided since. However, this forms part of a suite of key fundamental audits that are carried out annually. The review for 2020/21 is currently underway. Any recommendations arising from our current review will supersede the prior year's actions.	Service Manager, Income	Major
Personal Budgets (Families)	Children and Families	Monitoring and Review (ref 41)	29/01/21	Last update as at 14 September 2020: Implementation has been delayed due to Covid-19 and redeployment of teams. However, we have agreed areas of the Choice and Control Programme which can have an all age impact and are actively now working to progress these. A review of the Direct Payments monitoring team is due to be undertaken in 2021. From this we will be able to identify when the model can be extended to cover Children and Families Direct Payments and put recommendations to the Leadership Team. In the mean time work is progressing to appoint a resource to review and update the practice guidance for Direct Payments and we expect this work to be concluded by January 2021	Director, Local Delivery	Major

Changes to the 2020/2021 Internal Audit and Counter Fraud Plan

Key:

Deferred to 21/22
No longer required
Change of scope or approach

Audit Plan Ref	Audit Title	Rationale
PPH1	Essex Housing	Meetings have taken place during the year with the Project Manager and Head of Essex Housing but there have been delays in getting arrangements set up to enable a full audit to be undertaken in this financial year. Audit advice ongoing but full audit to take place in 2021/22. This has been included in the 2021/22 Internal Audit Plan.
ASC3	Safeguarding in Adult Social Care	Initially delayed due to Covid response, however, we have recently completed a Quality Assurance Framework audit of Adult Social Care (ASC) which gives some assurance over safeguarding risks in Adult Social Care so health check no longer required
ASC5	Management information / KPIs in Adult Social Care	Resources not available due to Covid response, however new business intelligence business partner is carrying out a full audit of ASC's management information and KPIs. New operational measures are planned to be in place by end of March 2021 and strategic ones to follow. Consequently, we can place reliance on the work being carried out elsewhere and review the effectiveness of the output of that work in 2021/22. Included in emerging risk section of IA Plan for 2021/22.
CF2	Schools thematic review - procurement	Work had commenced on this project with procurement colleagues but deferred to 2021/22 now due to schools being closed and unable to respond to our queries. Will resume as soon as it is appropriate to engage with schools. Still a keen appetite for this to continue due to ongoing procurement risks associated with schools.
	Schools establishment reviews	Due to Covid we have only been able to carry out one school review this year (remotely). Consideration was given to carrying out further schools' audits remotely but due to pressure schools are under and concluding that a remote visit is not as robust as an on-site one, no further reviews have been undertaken. We have responded when necessary to provide advice and guidance to schools during the year.

Appendix 4

ODP1	Recruitment of permanent employees	On hold due to request from service whilst in Covid response. This has been included in 2021/22 IA Plan.
FT1	Use of consultants	On hold due to request from service whilst in Covid response. Included in 2021/22 IA Plan.
Ft2	Temporary and Interim workers	On hold due to request from service due to some of their staff being redeployed to support Covid response. Will include in 2021/22 Plan.
ODP3	Wellbeing audit	Deferred to 2021/22 when the strategy will be able to be more embedded and there will be more evidence to audit.
FT4	Modern Day Slavery	Procurement resources were heavily focused on Covid response. Deferred until 2021/22
CC8	Corporate reporting	To be deferred to next year to take into account planned changes to the ECC Strategy.
PPH7	Highways contract	High level assurance obtained in this financial year with a more detailed audit if required scheduled for 2021/22.
FT24	Adult Social Care Digitalisation	This project was delayed due to Covid-19. Major contract with third party to deliver care technology not now due to go live until 2021. Audit deferred to 2021/22.

Report title: Risk Management Strategy	
Report to: Audit, Governance and Standards Committee	
Report author: Paula Clowes – Head of Assurance	
Date of meeting: 22 March 2021	For: Approval
Enquiries to: Paula Clowes – Head of Assurance paula.clowes@essex.gov.uk	
Divisions affected: All Essex	

1. Purpose of report

- 1.1 The purpose of this report is to present the revised Risk Management Strategy for approval.

2. Recommendation

- 2.1 To approve the report in the form appended to the report.

3. Background

- 3.1 Effective Risk Management is a key component of good Corporate Governance and as such the Council is required to have effective arrangements in place for the management of Risk.
- 3.2 The Council's Risk Management Strategy was fully revised in 2019 but is reviewed annually.
- 3.3 There is one minor recommended change which is to reflect the fact that 'emerging issues' may on occasions be recorded on the strategic risk register although they have not been formally recorded as risks. As a result the recommended draft includes the additional sentence, 'In exceptional circumstances, issues are also recorded on the strategic risk register.'

4. Financial Implications

- 4.1 There are no financial implications associated with this report.

5. Legal Implications

- 5.1 There are no legal implications associated with this report.

6. Equality and Diversity implications

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

7. List of appendices

9.1 Risk Management Strategy

8. List of Background Papers

10.1 None

Essex County Council

Risk Management Strategy

January 2021
Version 2.0



1. Introduction

Essex County Council has adopted the Institute of Risk Management's definition of a risk **'A risk is something uncertain - it might happen or it might not. A risk matters because if it happens, it will have an impact on objectives'**

To assist the organisation in managing its risks, the Council has a Risk team who provide support, guidance, training and co-ordination of risk management. Risk management is defined as: **'Co-ordinated activities to direct and control an organisation with regard to risk.'** (ISO31000:2018)

The purpose of this strategy is to explain our approach and outline the principles of risk management, identify the people responsible for it, and promote a culture of risk management throughout the Council. This document is aligned with the Council's Organisation Strategy 2017-21 and is one part of our risk management framework.

2. Statement of Commitment

Risk management plays an important role at Essex County Council as it enhances the effectiveness and efficiency of our decision making. The Risk Management Strategy complements and supports the strategic aims and priorities that are set out in the Council's Organisation Strategy.

Risk is inherent in all that we do as a Council in delivery of our high-quality services. Risk management helps us to be prepared; it removes the element of surprise when it comes to barriers to achieving our objectives and meeting our goals, and it helps us to identify and maximise opportunities.

The Leader of the Council, Corporate Leadership Team, and I are committed to risk management and are supportive of its activities within the organisation. The Council's employees all have a role to play in the management of risk and employees are encouraged to take the opportunity to further their learning via the training offered by the Risk team.



Gavin Jones

Chief Executive

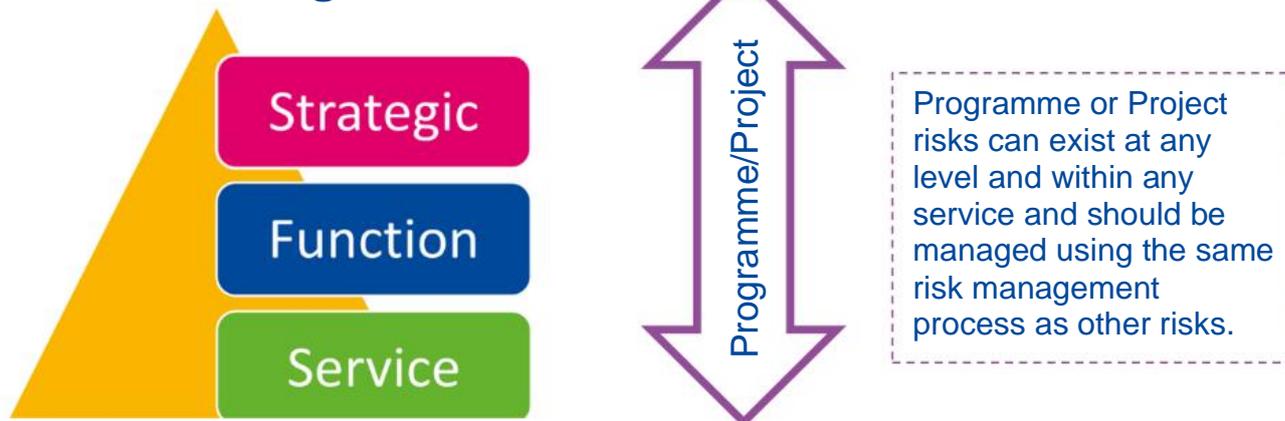
3. Risk Appetite

Risk appetite is defined as **'the amount and type of risk that an organisation is willing to take in order to meet their strategic objectives.'** (Institute of Risk Management, IRM).

The Council's Organisation Strategy seeks change in how we operate, with greater innovation, more risk-taking and a focus on being more entrepreneurial.

The Council provides a wide range of services and it is therefore impossible to have a single 'risk appetite'. We consider our risk appetite for each risk and apply a 'target rating' which is realistic and achievable whilst being tolerable for that remaining risk. The 'risk assessment and risk matrix' section within the Risk Management Toolkit has further guidance on when immediate action should be taken.

4. Risk Management Levels



Individual members of the Corporate Leadership Team (CLT) are responsible for the Council's strategic risks and these are reviewed and updated regularly in consultation with the Risk team. In exceptional circumstances, issues are also recorded on the strategic risk register. Function level risks are owned by Executive Directors, Directors or Heads of Service and are discussed and reviewed at Function Leadership Team (FLT) meetings. Most of our risks are service level risks which are owned by an appropriate person, usually a manager, with specialist knowledge of the subject.

5. Risk Matrix

A risk matrix is a key tool used to analyse the probability and impact of a risk. The Council uses a 4X4 risk matrix, with the score determined by multiplying the 'probability' score with the 'impact' score. We have adopted this approach as it encourages a decision to be made about whether a probability or impact is high or low, rather than medium.

We have four colours to correlate with the four categories of low, medium, high and very high. Scoring risks allows them to be compared with other risks and enables risk owners to prioritise and allocate more resources to those risks posing the greatest threat to the organisation's objectives.

Risk Matrix (Threats)

Risk can also have a positive effect on objectives - these are opportunities. The opportunity risk matrix can be found in the toolkit. When the Council are exploring new ideas and ventures, any resulting risks from the opportunity must still be identified and managed.

		Impact/Consequences				
		Minor	Moderate	Major	Critical	
		1	2	3	4	
Probability	4	Almost Certain	Medium (4)	High (8)	Very High (12)	Very High (16)
	3	Likely	Low (3)	Medium (6)	High (9)	Very High (12)
	2	Possible	Low (2)	Medium (4)	Medium (6)	High (8)
	1	Unlikely	Low (1)	Low (2)	Low (3)	Medium (4)

6. ECC- Our process



The Risk management process adopted at the Council is broadly based on the International Standard in Risk Management - 'ISO 31000'.

The five-step process should take place regularly to identify new risks. The whole process along with the activities of communicating, consulting, embedding and reviewing should take place continuously to encourage the risk management process into the culture at the Council.

An especially relevant time for considering new risks is at the business planning phase, as risks should be identified which could impact on the ability to meet the objectives set out in the plan.

7. Risk Management Framework

The Council are committed to ensuring risk management is embedded across the whole organisation.

The Risk Management Strategy is supported by the Risk Management Toolkit - a document to guide, support and assist staff in achieving successful risk management. A training and support menu is available within the Risk Management Toolkit, offering options in both risk management training and software training.

Identified risks and mitigations are managed through the Council's risk register software.

8. Our expectations:

Political Leadership Team (PLT)

- Ensure consideration of risk in agreeing organisation's direction of travel
- Oversee delivery of the Risk Management Strategy
- Review the Strategic Risk Register regularly

Corporate Leadership Team (CLT)

- Set the tone from the top, and promote the benefits of risk management
- Regularly discuss and review the Strategic Risk Register and associated reports
- Work with Risk team and management teams to identify new or emerging risks.

Executive Director with responsibility for risk

- Overall accountability for the effective delivery of the organisation's risk management function including the Strategic Risk Register and the Risk Management Strategy

Audit, Governance and Standards Committee

- To consider the Council's arrangement for corporate governance and risk management and advise on any action necessary to ensure compliance with best practice

Function Leadership Teams (FLT)

- Escalate risks up to strategic level when required
- Take ownership for risks within their function and ensure Risk Register is regularly discussed, reviewed and updated
- Champion the Risk Coordinator role

Managers at all levels

- Ensure staff have appropriate understanding of their role in risk management and attend any suitable training, including e-learning completion
- Record and manage risks effectively in their service area by owning risks or delegating ownership where appropriate

Risk Co-Ordinators

- Support and facilitate risk management for a specified area
- Provide support to Directors, Heads of Service and other managers on the management of their risks
- Undertake a regular review of the Risk Register

Employees

- Manage risk as part of their role and report risks to their managers.
- Develop understanding of risk management at the Council through completion of e-learning and attendance at any training required

9. Risk Maturity

A risk maturity assessment measures an organisation's processes according to best practice, against clear external benchmarks. This establishes the organisation's 'risk maturity level' and assists with identifying areas of improvement to become more risk mature.

An assessment in 2019 using the *Alarm National Performance Model for Risk Management in Public Services*, found the Council to be at a level '3' on a scale of 1-5 (5 being the highest). This score means that risk management is in place and is working for the Council.

Our aspirations for the future following this assessment are to continue to move towards risk management becoming a key tool to support business planning, aid decision-making, and ultimately help the achievement of objectives.

Our aim remains to move to a score of '4' meaning that risk management is consistently embedded and integrated into the Council's ways of working. This will be achieved through an ongoing continuous development program, with risk maturity next assessed in 2021.

10. Audit and Assurance

The Risk team's work is aligned with and supported by Internal Audit whose approach to developing the annual plan is risk based. Internal Audit share all appropriate reports with the Risk team to ensure significant risks are captured in risk registers to demonstrate effective management.

The effectiveness of risk management is evaluated on an annual basis and reported on within the Head of Audit's annual report to Audit Governance and Standards Committee.

11. The Risk team

The Risk team offer a comprehensive training and support menu, including online e-learning plus options for a risk register software training session, a 2-hour workshop, risk identification session and more. Horizon scanning takes place to ensure evidence-based decisions are made, and that emerging issues are identified. The team are on hand for any support or enquiries, plus assistance during major projects.

12. The Risk Management Toolkit

This Risk Management Strategy is supported by a separate document - The Risk Management Toolkit which will assist the Council with every stage of the risk management process, enabling risk-based decisions to be made, and keep track of existing or emerging risks which may threaten the achievement of objectives may these be at strategic, function or service level.

Essex County Council

Risk Management
Toolkit

January 2020
Version 1.0



Report title: Internal Audit Plan 2021/22	
Report to: Audit, Governance and Standards Committee	
Report author: Paula Clowes – Head of Assurance	
Date: 22 March 2021	For: Approval.
Enquiries to: Paula Clowes – Head of Assurance email paula.clowes@essex.gov.uk Tel: 03330321474	
County Divisions affected: All Essex	

1. Purpose of Report

- 1.1 This report asks the Committee to approve the ECC Draft Flexible Internal Audit and Counter Fraud Plan for 2021/22.

2. Recommendations

- 2.1 The 2021/22 Flexible Internal Audit and Counter Fraud Plan be approved in the form at appendix 1 to this report.

3. Summary of issue

- 3.1 The Council is required under the Accounts and Audit Regulations 2015 to maintain an adequate and effective system of internal audit. The Internal Audit and Counter Fraud Team provide independent and objective assurance that the system of governance, risk management and control is operating effectively.
- 3.2 The proposed activity of the Internal Audit and Counter Fraud Service is captured in an annual plan (see Appendix 1). Coverage within the plan, combined with other sources of assurance, should be sufficient to enable the Head of Assurance in her capacity as the chief audit executive to provide the Audit, Governance and Standards Committee with an independent, objective, and evidence based opinion on the overall adequacy and effectiveness of the Council's system of internal control. The planned coverage will also inform the Council's Annual Governance Statement.
- 3.3 For 2021/22 a flexible plan is proposed. The Covid-19 pandemic caused significant service disruption across ECC which meant that the original plan (March 2020) underwent several significant changes. To recognise that this is also foreseeable for the 21/22 plan it is presented as a 'flexible plan'. It still includes a full programme of audits and any change will still need to be approved by the Committee. Audits have been prioritised to reflect the value of the assurance they give. This approach allows for flexibility for audits to be

deferred or cancelled should this be necessary as a result of disruption to services or pressures on senior leaders as a result of covid related activity.

3.3 In devising the risk-based Plan and to ensure it is appropriately focussed, we have considered the following:

- Risk Registers, including the ECC Strategic Risk Register
- Key Documents, including the organisational strategy, operational business plans, budgets and savings targets, programmes and projects and future known commercial activity.
- External Horizon Scanning such as guidance produced by CIPFA and the Institute of Internal Auditors
- Other sources of Assurance

3.4 The proposed audits are broken down by Function in a 'plan on page summary' and in-depth explanations regarding audit coverage are also provided.

3.5 The plan includes audits that we are required to carry out every year such as key financials and audits that have been included due to a heightened reputational risk environment or significant expenditure.

4. Financial Implications

4.1 There are no financial implications as the Internal Audit activity for 2021/22 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.

5.2 The internal audit plan is key document for Audit Committees. It is important that the Committee considers that the planned audits cover areas of concern to the Committee so that it can receive the required assurance.

6. Staffing and Other Resource Implications

6.1 It is anticipated that the plan will be delivered using existing staff and contractors, as in previous years. There are no staffing or resource implications.

7. Equality and Diversity Implications

- 7.1 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.
- 7.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation.
- 7.3 Equality and diversity matters have been considered in the production of the Internal Audit Plan.

8. List of Appendices

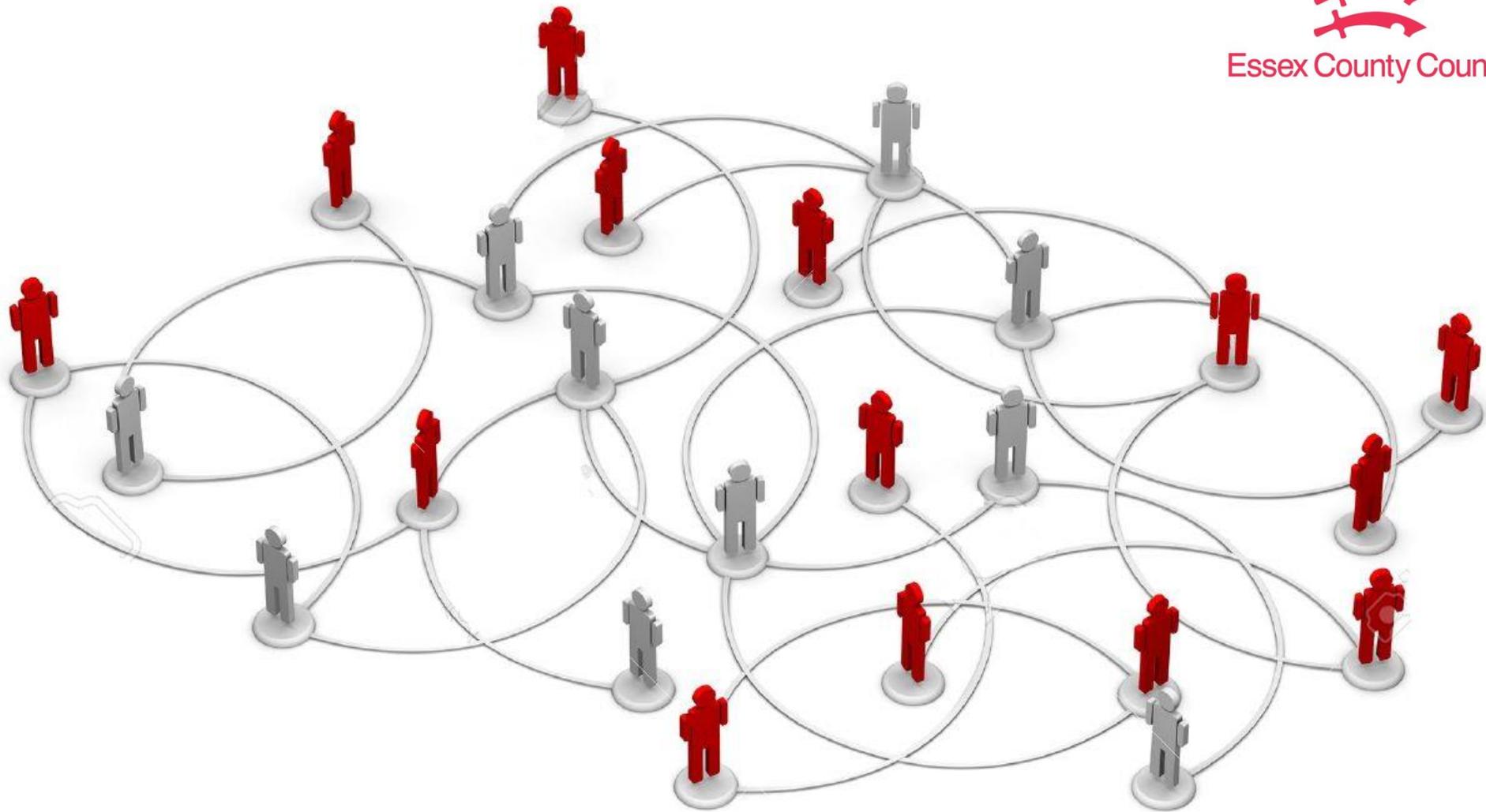
Appendix 1- Draft Essex County Council Flexible Internal Audit and Counter Fraud Plan 2021/22

9. Background Papers

ECC Organisational Strategy
ECC Strategic Risk Register
ECC Fraud Risk Assessment
Public Sector Internal Audit Standards



Essex County Council



INTRODUCTION

Background

The Council is responsible for establishing and maintaining appropriate **risk management** processes, **internal control** systems, accounting records and **governance** arrangements.

The Council is also required under the **Accounts and Audit Regulations 2015** to maintain an adequate and effective system of internal audit, and this responsibility has been delegated to the Executive Director for Finance and Technology (S151 Officer).

The **purpose** of the Internal Audit and Counter Fraud Service is to provide **independent, objective assurance** and consulting services to the Council (via the Audit Governance and Standards Committee, Chief Executive, S151 Officer, Corporate Leadership Team and External Audit), relating to these arrangements, which are designed to add value, improve the Council's operations and be proportionate to risk.

In addition, the Counter Fraud Service, as outlined in the Council's **Counter Fraud and Anti Bribery Strategy**, seeks to prevent, detect and deter fraud, corruption, bribery or other irregularity in order to protect the public purse.

Internal Audit work is carried out in accordance with the professional requirements as set out in the **Public Sector Internal Audit Standards** (PSIAS).

Purpose of the Internal Audit and Counter Fraud Plan

The **Organisational Strategy** sets out ECC's strategic direction and priorities for the four year period 2017 to 2021 and is due to be revised during 2021. It describes what the Council will do to deliver the Vision for the people of Essex. The **Organisation Plan** provides an

expression of our priorities and activities over the next twelve months. The **Internal Audit and Counter Fraud Plan** considers the Council's **strategic and operational risks** in relation to delivering the Strategy and organisation / operational plans and details our priorities and activities over the next financial year.

The Plan, combined with other sources of assurance, is designed to provide sufficient coverage to enable the Head of Assurance (as **Chief Audit Executive**) to provide the Audit, Governance and Standards Committee with an independent, objective, and evidence based **annual opinion** on the overall adequacy and effectiveness of the Council's framework of governance, risk management and internal control. The planned coverage will also inform the Council's **Annual Governance Statement** and provide evidence on the effectiveness of arrangements.

2021 / 2022 Context – Flexible Plan

The impact of the Covid-19 pandemic on ECC services cannot be understated. As a result, delivery of the 20/21 Internal Audit plan was difficult. The original plan (March 2020) underwent several significant changes. To recognise that this is also foreseeable for the 21/22 plan it is presented as a 'flexible plan'. It includes a full programme of audits and any change will still need to be approved by the Committee. Audits have been prioritised to reflect the value of the assurance they give. We will ensure that high priority audits take place unless there is a very good reason. This approach allows for flexibility to allow for audits to be deferred or cancelled should this be necessary as a result of disruption to services or pressures on senior leaders as a result of covid related activity.

Internal Audit and Counter Fraud Plan for 2021-22

In devising the risk-based Plan and to ensure it is appropriately focussed, we have considered the following:

Use of our own cumulative knowledge and expertise of services and areas of control weakness/ fraud risk, including prior years' activity.

Risk Registers

Review and consideration of the strategic, project and operational risk registers.

Key Corporate Documents

Key corporate documents including the Organisational Strategy for 2017 to 2021, operational business plans (where available), budgets, savings targets and medium-term planning, programmes and projects and future known commercial activity.

Other Sources of Assurance

Use of other assurance sources such as third-party inspections.

External / Horizon Scanning

The Chartered Institute of Public Finance and Accountancy (CIPFA) and Institute of Internal Auditors (IIA) direction. Liaison with other local authorities on emerging themes through professional forums (e.g. Home Counties Audit Group / Local Authority Chief Auditors Network / South East County Council Fraud Hub). Review of Mazars LLP Horizon Scanning document on challenges and opportunities facing the Public Sector in 2021/22.

Consideration of future planned national and international legislative changes including the impact of the Covid-19 pandemic on the local and national economy and ways of working.

Organisational Change

Consideration of the Council's organisational change programme and activity including mass remote/home working, launching the new four year Strategy in 2021, the planned implementation of My Oracle in 2021 and the County Council elections scheduled for May 2021.

Stakeholder Consultation

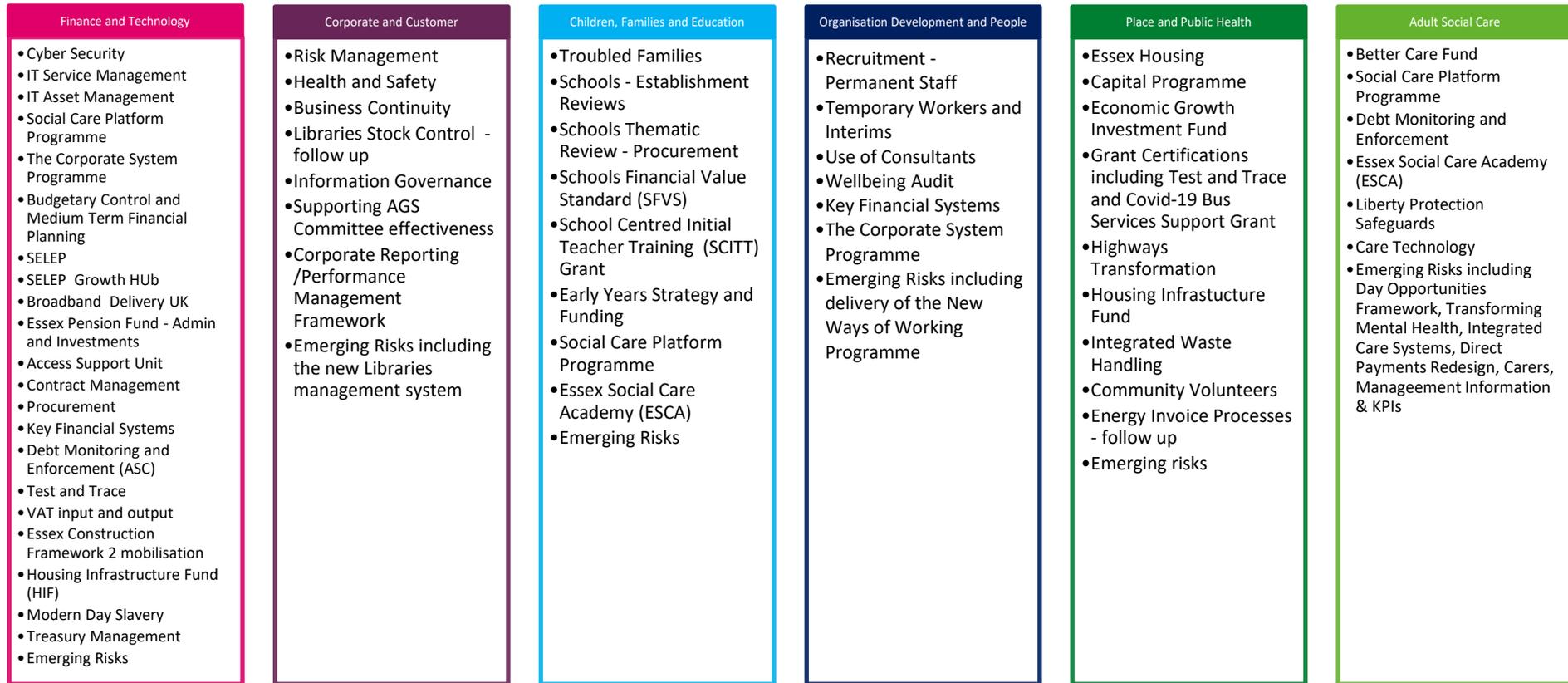
Engagement with key stakeholders including the Chief Executive (Head of Paid Service), S151 Officer, Monitoring Officer, Executive Directors, Senior Information Risk Officer (SIRO), Chair of the Audit, Governance and Standards Committee and External Audit.

Delivery and Resourcing

Consideration has been given to the financial and staffing budgets available to deliver the Plan. This includes the in-house team and where necessary, an externally commissioned provider (e.g. for IT audits). Delivery and resourcing are based on current capacity and assuming resourcing remains stable; however these may be impacted by the uncertainties of the Covid-19 pandemic. If this should occur, we will prioritise audits of strategic importance and essential to the Head of IA's Annual Opinion, whilst ensuring we audit the breadth of the organisation. Any material changes to the Plan will be communicated to the S151 Officer and will require the agreement of the AGS Committee.

Resources are currently allocated as follows: 70% allocated, 20% Unallocated/TBC, 10% Contingency.

Summary Internal Audit and Counter Fraud Plan - by Function



Pro-active preventative, detective fraud work and investigations

Head of Assurance Annual Opinion on the Council's internal control, governance and risk management arrangements

Flexible Internal Audit and Counter Fraud Plan 2021/22

This plan includes a full programme of audit activity for 2021-22 but it is recognised that it may need to change as a result of the impact of covid-19, for example because:

- A service cannot be audited because it is operating in a disrupted way as a result of the pandemic and there is little assurance value in auditing the disrupted service.
- Leaders of a service are responding to immediate pressing needs of the pandemic and as a result are unable to devote the management time to supporting the audit.

KEY:

Audits have been given a priority rating in order to provide transparency should changes or cancellations be recommended be made to the plan later in the year due to a Covid-19 resurgence or a delay to ECC services resuming Business as Usual activities.

Priority	Explanation
HIGH	Vital to inform the Chief Audit Executive's (CAE) Annual Opinion. Of significant strategic/corporate importance and material in value. May have strategic risks associated with the auditable area, a 'No Assurance' opinion from a previous year or required to meet statutory regulations such as the terms and conditions of a grant claim to be able to receive associated grant funding. Extremely unlikely that these audits would be cancelled or deferred.
MEDIUM	Of strategic importance and material in value but not essential for the CAE Annual Opinion. May have associated strategic or functional level risks or have received a 'Limited Assurance' opinion from a previous year. These audits could possibly be cancelled or deferred but this would be avoided where possible.
FLEXIBLE	Of sufficient significance to be included in the risk based IA and CF Plan but not essential for the CAE Annual Opinion. Could be deferred or cancelled with minimal impact on CAE opinion.

Internal Audit and Counter Fraud Plan 2021/22

Reference	Audit Title	Risk Justification	Proposed Objective / Coverage	Priority
Finance and Technology				
FT1	VAT (input and output)	ECC may not correctly identify and code VAT where applicable resulting in VAT claims to HMRC being incorrect which could cause financial loss and reputational damage.	To follow up on issues raised in the VAT Output audit of 2020. To look at both input and output VAT to ensure that ECC are accounting for VAT correctly.	HIGH
FT2 and FT3	Essex Pension Fund – administration and funding & investments	The pension fund is around £8.2 billion (as at 5 January 2021) and ECC as the Administering Authority is responsible for the effective running of the fund to meet statutory requirements, ensure required payments are made and there is sufficient funding to meet liabilities.	To assess whether the Essex Pension Fund has effective governance in line with statute to ensure that investment and funding activity is lawful, effective and regularly reported. To assess whether the Essex Pension Fund efficiently and effectively manages on-going administrative events to ensure pension records are accurate and up to date and pensions payments are accurate and valid.	HIGH
FT4	Access Support Unit	The ASU provide to the ACCESS Pool professional support and leads the pool's programme of work on a day to day basis. The Pool manages funds on behalf of its members to the value of c£50bn.	ECC hosts the ACCESS Support Unit (ASU) which provides the day-to-day support for running the ACCESS Pool and has responsibility for programme management, governance, contract management, administration and technical support services to the eleven administering authorities constituting the ACCESS LGPS Pool. To assess whether the ASU is effectively fulfilling its responsibilities under the Inter Authority Agreement with the	HIGH

Reference	Audit Title	Risk Justification	Proposed Objective / Coverage	Priority
		Given the materiality of sums involved and the Council's obligations to other Pool members, it is therefore important to be assured over the strength of the ASU's control environment.	Access Pool. It has been agreed as part of the 2020/21 Internal Audit review that the 2021/22 review will seek input from the administering authorities Internal Audit leads when drawing up the terms of reference.	
FT5	Broadband Delivery UK (BDUK) Delivery and Payment Assurance	Failure to meet government targets resulting in reputational damage but also failure to provide superfast broadband to homes and businesses could affect economic growth in Essex and social isolation. There is also the risk that a supplier could claim for broadband that has not been delivered to the required standard.	Quarterly assurance over the supplier's Milestone Achievement Reports and Milestone Payment Claims for the Government's (partially) funded scheme to expand coverage of superfast broadband networks across the UK. Schemes are also match funded from the local authorities and private investment from suppliers.	FLEXIBLE
FT6	Treasury Management	Imprudent borrowing and investments could be undertaken which undermine the financial stability of the organisation and could affect service provision and reputation. ECC may not receive robust advice from our third-party advisors or actively ensure a good return on our assets whilst balancing risk of return.	To provide assurance that the Prudential Code and Treasury Management Code are being complied with. This audit is ranked as flexible as it has received good assurance consistently for a number of years. The 20/21 audit is currently in progress and early indications suggest assurance will be good again. Should this be the case, a further review in 2021/22 will not be essential.	FLEXIBLE

Reference	Audit Title	Risk Justification	Proposed Objective / Coverage	Priority
FT7	Budgetary Control and Medium-Term Financial Planning & Strategy	<p>Poor financial management could result in the Council being unable to achieve its objectives. There is considerable uncertainty around the funding structures for local government beyond 2021/22.</p> <p>The Covid -19 pandemic has resulted in exceptional and sometimes unpredictable patterns of spend and activity.</p> <p>There is a risk that some savings may not be delivered and/or income levels may not be achieved.</p>	<p>The Council plans to spend £2bn (revenue budget) in 2021/22 (including schools). After income, this equates to a net expenditure budget of £1bn. £46m of savings are assumed to balance the 2021/22 budget. The medium range scenario for future years indicates a gap between the Council's expected funding streams and the Council's expenditure. After delivering 100% of all existing planned savings, the gap is expected to be £25m in 2022/23 rising to £91m by 2024/25 (ref. Agenda Item 7 Full Council 23 February 2021).</p> <p>To assess the robustness of financial management arrangements, including the level of reserves; and that key assumptions are reasonable to ensure the Council is financially stable in the medium term.</p>	HIGH
FT8	Contract Management	<p>Suppliers may not deliver services to required standards or within agreed costs leading to financial, reputational and legal challenges.</p> <p>Suppliers may not be resilient or become insolvent exposing ECC to degradation in service provision, project delays and increased costs.</p>	<p>To examine the effectiveness of contract management arrangements and provide assurance that there is clear accountability over risks, performance management, spend and budgetary control. To also consider the impact of Covid-19 on ECC's strategic contracts.</p>	HIGH
FT9	Procurement	<p>Procurements may not be undertaken in line with policy and legislation which could lead to legal challenge, delays,</p>	<p>To provide assurance over the relatively new system Proactis. To also keep a watching brief over national developments in relation to procurement and the Cabinet Office's recently published Green Paper / consultation on Transforming Public Procurement (December 2020).</p>	HIGH

Reference	Audit Title	Risk Justification	Proposed Objective / Coverage	Priority
		negative impact on customer experience and financial risks.		
FT10	The Corporate Systems Programme	The Corporate Systems Programme to implement the Council's future finance, payroll and HR system in 2021 is of corporate strategic importance, material in value and will impact customers, suppliers and staff.	Ongoing Internal Audit advice / consultancy to support the Programme in 2021/22. Includes being a member of the Design and Change Board.	MEDIUM
FT11	South East Local Enterprise Partnership (SELEP)	ECC is the accountable body for the SELEP and therefore has responsibilities to ensure that it complies with its assurance framework, which itself is in line with national standards. As accountable body ECC is responsible for the SELEP investment programme ensuring it is appropriately allocated, used for approved purposes, and drives sustainable growth and job creation.	SELEP incorporated a company limited by guarantee as part of its governance arrangements in 2020, although the company is dormant. To assess the robustness of governance over decision making, project delivery, and financial management and whether those involved in SELEP understand whether funded projects achieve required outcomes and benefits. To also assess risk management arrangements.	MEDIUM
FT12	Key Financial Systems	If the key financial systems are not well controlled, the underlying information used for the financial statements may not be reliable and or financial transactions could include	Integrated audit approach to assess the robustness of the design and operating effectiveness of controls in place to ensure that processes and transactions executed through The Corporate System (TCS and subsequently My Oracle) and A4W (the finance system used to pay providers of care to	HIGH

Reference	Audit Title	Risk Justification	Proposed Objective / Coverage	Priority
		<p>fraud and or material error. If the key financial operational processes are not effective, this could lead to overspends, higher levels of debt and failure to pay staff and suppliers on time.</p> <p>Note that there is a planned move to Oracle Fusion known as My Oracle in late 2021 for all key financial systems.</p>	<p>adults) are accurate, complete, authorised, valid, timely and efficient. Includes:</p> <ul style="list-style-type: none"> • Accounts payable • Accounts receivable (including debt management) • Banking and cash • General ledger (journals and virements) • Payroll • Scheme of delegation • Change Management • I-expenses. 	
FT13	SELEP Growth Hub Funding		<p>Each of the following grants must be fully spent by 31 March 2021 and then internally audited by 25 May 2021 to meet the terms and conditions of the funding:</p> <ul style="list-style-type: none"> • Growth Hub Core funding - grant value £656,000 • Growth Hub Supplemental funding - grant value £234,000 • Growth Hub Peer Network funding – grant value £195,000 • Growth Hub EU transition funding – grant value £203,550 	HIGH
FT14	IT Asset Management	<p>The Council has a large and complex IT asset estate of significant value. Assets are key enablers of modern ways of working and therefore support the achievement of the Council's strategic aims.</p>	<p>To assess whether there are robust processes to effectively safeguard technology assets and optimise the purchase, storage, and deployment of assets. To follow up on the Limited Assurance opinion received in 2020/21.</p>	HIGH

Reference	Audit Title	Risk Justification	Proposed Objective / Coverage	Priority
FT15	IT Service Management	The Council's ability to successfully deliver its services is heavily reliant on IT systems working effectively and efficiently. Timely problem resolution is key to minimise business interruptions and reputational/financial damage.	To provide assurance that the Council has effective and efficient mechanisms in place to resolve employee IT issues / incidences promptly and effectively (via service centre and / or the new online portal and that there is appropriate, accurate and timely management information/oversight and key performance indicators / service level agreements in place to measure customer satisfaction with the service provided.	FLEXIBLE
FT16	Essex Construction Framework 2 Mobilisation	<p>The Essex Construction Framework 2 is a list of design and construction contractors that ECC work with that can be used by other contracting authorities such as district councils or police authorities, to find a design and construction or construction only works contractor.</p> <p>A full OJEU (Official Journal of the European Union) compliant tender was run to select the successful contractors and the framework went live in 2020. The framework is split into 3 Lots with project values of up to £1.5m, £4.5m and over £4m respectively.</p>	To provide assurance that the Framework is robust and is working as intended, that any associated risks are mitigated, that access agreements are in place for contracting authorities and that levies are charged as appropriate to contractors on being awarded a contract through the framework.	MEDIUM
FT17	Cyber Security	A cyber-attack could prevent access to, or the required use of, technology that is critical to delivering services including those delivered to vulnerable	To assess whether there are robust controls to prevent, detect, respond, and recover from cyber threats. To establish whether lessons are learned and enacted upon from recent cyber attacks occurring elsewhere such as London Borough of Hackney. Third party assurance can also be gained via	HIGH

Reference	Audit Title	Risk Justification	Proposed Objective / Coverage	Priority
		people. Cyberattacks could also destroy or damage data. Without robust proactive protection against attacks, the Council may spend significant avoidable amounts of resource dealing with incidents and incur significant unplanned costs to remedy weaknesses.	annual penetration testing of on-premise and cloud based applications.	
FT18	Modern Day Slavery	Procurement / supply chain risk. Eradicating modern slavery is one of the United Nations' Sustainable Development Goals and is recognised as a serious problem by authorities in the UK.	To provide assurance that ECC can demonstrate its compliance with the minimum legal requirements as defined by the Modern Day Slavery regulations and Home Office Statutory Guidance. To review the Council's identification of its supply chains, policies and training in relation to slavery and human trafficking, due diligence processes, risk assessment and management and key performance indicators to measure effectiveness of steps being taken.	FLEXIBLE
FT19	Housing Infrastructure Fund (HIF) Funded Projects	The HIF is a government capital grant programme to deliver new homes in England paid using Section 31 of the Local Government Act 2003. Funding is awarded to local authorities on a highly competitive basis. Risks include not being able to demonstrate value for money, cost and/or project overruns, legal and reputational risks and not achieving intended outcomes/ key deliverables.	To assess whether there are robust processes to forecast and manage costs and delivery of the HIF grant funded projects to ensure that the risks of cost overruns are promptly identified, communicated, and effectively mitigated. An initial internal audit review was carried out in 2020. At that time it was agreed that further internal audit work would be planned at key stages throughout the lifecycle of the HIF to assess the level of assurance the significant risks to delivering these projects to time and budget are being managed. Included in the review will be assurance over the regeneration of the Beaulieu Park estate including a new railway station with a targeted opening date of 2025/26. (ECC, in partnership with Chelmsford City Council and SELEP have secured £218m of funding from the	HIGH

Reference	Audit Title	Risk Justification	Proposed Objective / Coverage	Priority
			<p><i>Government's HIF together with contributions from other sources to deliver the wider scheme.)</i></p> <p><i>Also comes under the area of Place and Public Health and links in with Essex Housing and Major Capital Programme audits.</i></p>	
FT	Emerging Risks / Unallocated		<p>Additional work in this area could include but is not restricted to:</p> <ul style="list-style-type: none"> • social value project being led by Procurement • oversight of the reprocurement of ECC's banking provider (current contract expires October 2021). 	FLEXIBLE
Corporate and Customer				
CC1	Libraries – Stock Control, Fees and Charges	Reputational and financial risks.	Follow up of the Limited Assurance opinion from 2020/21.	MEDIUM
CC2	Risk Management	Effective risk management helps support good decision making and service/project delivery across all Functions and at the strategic level.	<p>To provide assurance over the Council's risk management arrangements to assist in forming the Head of Internal Audit's annual opinion.</p> <p><i>We will ensure there is the required level of independence when carrying out this review as this service comes under the CAE remit.</i></p>	HIGH
CC3	Health and Safety	ECC has duties under health and safety legislation and expects all employees and contractors to comply with health and safety policies,	To review a key health and safety risk area to assess whether the associated policies and procedures are robust and that the requirements are being consistently and effectively met. Risk area to be determined at the time of scoping the review.	HIGH

Reference	Audit Title	Risk Justification	Proposed Objective / Coverage	Priority
		procedures and safe systems of work. If ECC is found liable for harm to the health and safety of others ECC could face significant financial penalties, reputational damage and service disruption.	<i>We will ensure there is the required level of independence when carrying out this review as this service comes under the CAE remit.</i>	
CC4	Business Continuity	Prolonged service disruption due to a business continuity incident not being appropriately responded to could lead to ECC being unable to fulfill its statutory duties.	ECC has been re-developing its business continuity approach and has recently implemented a new Business Continuity and mass notification system. To ensure that Plans are robust and have been adequately validated. <i>We will ensure there is the required level of independence when carrying out this review as this service comes under the CAE remit.</i>	HIGH
CC5	Information Governance	A failure to comply with IG law exposes the council to risk of regulatory and public criticism and significant monetary penalties. The pandemic has changed the risk profile relating to IG and we need updated assurance that controls remain appropriate.	To provide assurance that the Council has robust controls in place to mitigate the risks of non compliance with the Data Protection Act 2018 and UK General Data Protection Regulation (GDPR) and that there is appropriate management oversight, reporting and investigation of any breaches.	HIGH
CC6	Corporate Reporting /Performance Management Framework	If we do not measure how well we are delivering on our intended strategies and plans we may fail to secure the right outcomes for our residents and we are at risk of deviating from our intentions. Outcomes ECC would ordinarily track may have	To review the robustness of arrangements for corporate performance / impact reporting and examine how well they align to the Essex Vision, new Strategy and business plans. To also consider how well ECC have re-evaluated measures / outcomes in the light of the Covid-19 pandemic.	MEDIUM

Reference	Audit Title	Risk Justification	Proposed Objective / Coverage	Priority
		become irrelevant due to the Covid-19 pandemic.		
CC7	Supporting the effectiveness of the Audit Governance and Standards (AGS) Committee	Ongoing support to help to ensure the AGS Committee is effective in discharging its responsibilities as set out in the Council's Constitution	Supporting the Committee's effectiveness by co-ordinating a skills assessment, supporting the induction of new members of the Committee after the County Council elections and other support as required. To also assist with implementation of aspects of the Redmond Review, published in September 2020, where appropriate to Internal Audit .	FLEXIBLE
CC	Emerging Risks / unallocated		Additional work in this area could include but is not restricted to: <ul style="list-style-type: none"> • Design and implementation of the new four year ECC Strategy and Vision • Implementation of new Libraries management system • Local Government Reform 	FLEXIBLE
Children Families and Education				
SCPP	Social Care Platform Programme (SCCP)	Financial, reputational, legal, safeguarding and governance risks.	Internal Audit advice / consultancy throughout the lifecycle of the social care platform programme which covers both Children's and Adults' Services and has dependencies with other key Council systems. Includes being a member of the SCPP Board. <i>Also impacts the Finance and Technology Function and Adult Social Care.</i>	MEDIUM
CFE1	Early Years Strategy and Funding	The Council has developed a new Early Years Strategy and Early Years Charter and will be implementing and undertaking	To review the new Early Years Strategy and Charter and the robustness and effectiveness of monitoring/performance arrangements.	MEDIUM

Reference	Audit Title	Risk Justification	Proposed Objective / Coverage	Priority
		<p>early evaluation of them in 2021/22.</p> <p>Prolonged Covid-19 restrictions continue to impact on the potential long-term sustainability of the early years provision in the county.</p> <p>Claims for funding could be made to the Council in error or fraudulently and if undetected the Council could suffer financial loss.</p>	To provide assurance that claims and payment of claims to nursery settings are timely, accurately recorded and that management oversight / compliance reporting supports the claims being free from fraud and / or error. If possible, we will undertake random sample checks / site visits to early years settings and explore the use of data analytics.	
CFE2	Schools – Thematic Review - Procurement	Schools could run the risk of challenge if procurement processes are not robust including anti-competitive behaviour, fraud and corruption and poor value for money. Contract terms may be unfavourable to schools leading to them being unaware of the level of risk they are exposed to.	To carry out some diagnostic enquiries initially with a selection of schools and then work jointly with Procurement and Education colleagues to provide advice and guidance to schools to help to improve the robustness of their procurement arrangements.	MEDIUM
CFE3	SCITT Grant	Annual requirement that Internal Audit certify the claim.	School Centred Initial Teacher Training grant. Year end is 31 July 2021 with deadline for submission of claim by 31 December 2021.	HIGH
CFE4	Troubled Families	Prevention and/or early intervention strategies helps to reduce the risk of escalation	Payment by results certification by Internal Audit throughout the year.	HIGH

Reference	Audit Title	Risk Justification	Proposed Objective / Coverage	Priority
		and the need for crisis intervention.		
CFE5	Schools Establishment Reviews	Financial, governance and reputational risks.	To visit a small sample of individual schools throughout the year on a risk-based approach. <i>This is likely however to be impacted by Covid-19.</i>	FLEXIBLE
CFE6	Schools Financial Value Standard (SFVS)	Statutory requirement aimed at improving governance and internal control arrangements at locally maintained schools.	Internal Audit collect these self-assessments from schools annually and provide a return of the results to the Department for Education.	MEDIUM
CFE - ER	Emerging Risks / Unallocated		Additional work in this area could include but is not restricted to: <ul style="list-style-type: none"> • Special Educational Needs (reinspection expected in 2021) • providing ongoing support in relation to reshaping ECC's current arrangements for Direct Payments and in particular to improve monitoring of DPs. 	FLEXIBLE
Organisation Development and People				
ODP1	Recruitment – Permanent Staff	ECC may employ staff who are unsuitable for the role resulting in inefficient use of resources, safeguarding risks and interruptions in the quality and timeliness of service provision. Recruitment processes may not be conducted fairly and transparently. Staff may not be paid at the correct rate on appointment.	ECC brought their recruitment processes and procedures back in house in 2019. This audit will assess whether the processes and procedures that are now in place and back in-house are working effectively.	MEDIUM

Reference	Audit Title	Risk Justification	Proposed Objective / Coverage	Priority
ODP2	Use of Consultants	Risk of poor value for money and / or poor quality outcomes.	To provide assurance over effectiveness of workforce planning and appropriate sourcing of consultants, skills / knowledge transfer, clarity of roles and responsibilities, monitoring and delivery of outcomes, accountability and value for money. <i>This review also impacts on the Finance and Technology Function (Procurement).</i>	MEDIUM
ODP3	Temporary and Interim Workers	ECC may employ individuals that are unsuitable for the roles, also risks around poor value for money and non-compliance with IR35.	ECC use a relatively new platform (Matrix) for the recruitment of temporary/interim workers. This audit will provide assurance over the new arrangements and will include recruitment processes and procedures, accountability, value for money, management oversight, reporting and key performance indicators. To include following up the previous internal audit recommendations relating to compliance with Off Payroll Engagements (IR35 rules).	MEDIUM
ODP4	Wellbeing Audit	If the Council does not create the right work conditions and culture for success there could be risks of low employee engagement, high staff turnover and / or absenteeism resulting in ineffective and / or inefficient achievement of the Council's strategic and operational aims and objectives.	To provide assurance over the Council's arrangements for ensuring the wellbeing of its staff particularly in the light of Covid-19 and more home working; and to include referrals to Occupational Health and the delivery of the Wellbeing Strategy.	FLEXIBLE
ODP - ER	Emerging Risks / unallocated		Additional work in this area could include but is not restricted to:	FLEXIBLE

Reference	Audit Title	Risk Justification	Proposed Objective / Coverage	Priority
			<ul style="list-style-type: none"> Ways of Working Programme introduced in early 2021. 	
Place and Public Health				
PPH1	Capital Programme	<p>The Council has indicated, within its budget proposals, an aspiration to invest considerable sums through its capital programme over the next four years in order to deliver a range of schemes to maintain, enhance and deliver new assets, such as investment in Chelmsford's proposed new Beaulieu Park Train Station and the long term solution for the Army and Navy Junction, as well as highways maintenance and providing new school places. Risks include political and ECC reputation, potential fraud, financial (including profile of spend, cost escalation, contingencies, change control), stakeholder management and partnership/third party risks (including due diligence over work carried out meeting the agreed requirements).</p>	<p>To assess whether there are sufficient resources and robust processes to manage costs and delivery of major capital projects to ensure that risks of cost and delivery overruns are promptly identified, communicated, and effectively mitigated.</p> <p>To establish the extent to which we ensure we achieve the right mix of financing for each programme, by maximising external funding, planning obligations (via Section 106 Agreements between ECC and developers) and capital receipts to minimise borrowing.</p> <p>To also assess the effectiveness of programme development and project management disciplines and management reporting.</p> <p><i>Impacts on all Functions including Finance and Technology.</i></p>	HIGH
GRT	Grant Certifications	6 monthly or annual grant certifications	<p>Interreg – BLUEPRINT</p> <p>Interreg – SPONGE</p>	HIGH

Reference	Audit Title	Risk Justification	Proposed Objective / Coverage	Priority
			Innovate UK – Solar Powered Forecourt Interreg - LECSEA Department for Transport - Integrated Capital Grant Bus Service Operators Grant (BSOG)	
PPH2	Economic Growth Investment Fund	Supporting ongoing economic recovery will be a significant area of focus for the Council over the next financial year. The Fund has associated financial, reputational, legal and political risks.	ECC will be setting the strategy for and rolling out a £100m Economic Growth Investment fund to enable inward investment, new start-ups and growth, whilst seeking to ensure that investments also generate social value for Essex Communities. This will provide assurance over the roll out of the strategy, the allocation of funding and the measurement of outcomes relating to the Fund.	MEDIUM
PPH3	Covid-19 Bus Services Support Grant for Local Transport Authorities 2020-21	Certification required as part of the terms and conditions of funding	ECC has been awarded grant monies to help compensate bus operators for lost revenue, as a result of the fall in passenger numbers, during the Covid -19 outbreak. The grant from the Department for Transport is paid directly to ECC who are then required to administer its distribution. The grant terms and conditions stipulate that appropriate investigations and checks must be undertaken by Internal Audit to ensure that the conditions attached to the grant have been complied with.	HIGH
PPH4	Highways Transformation	Poor value for money or service standards (including maintenance of our highways network) leading to reputational, legal and / or financial risks.	The audit will provide assurance over the robustness of the performance management arrangements to ensure quality of services in relation to the Ringway Jacobs Contract which has recently been extended. <i>Where possible we will place reliance on any third party assurances undertaking service reviews in this area.</i>	HIGH
PPH5	Test and Trace Service Support Grant Funding Certification	The funding may not be effectively targeted / allocated and spent in according with the funding terms and conditions	ECC is to receive £5.7m grant. The grant is part of £300m pledged nationally by the Government. The Council has used the money to develop	HIGH

Reference	Audit Title	Risk Justification	Proposed Objective / Coverage	Priority
		which could result in an inability to contain the virus and a threat to human life. Monies could be clawed back.	tailored outbreak control plans, working with the NHS Test and Trace service. Councils are expected to ensure testing capacity is deployed effectively to high-risk locations. Internal Audit are required as part of the terms and conditions, to validate the spend.	
PPH6	Essex Housing	As public sector owned in the commercial environment, it faces inherent risks around agility, speed of decision making, value for money, return on investments, financial management, project management and negotiating skills.	Two wholly owned (by ECC and Seax Trading Ltd) companies (limited liability partnerships) are being set up for property development and rentals. To assess whether the governance arrangements (including constitution of the board and executive) are appropriate and proportionate to enable to LLP to operate effectively in its commercial environment and safeguard public money. To consider the management and monitoring arrangements (including KPIs and benchmarking), investment strategy, commercial property/scheme approvals, acquisition, management and disposal. To advise on control design and operating effectiveness of the financial, business planning and risk management arrangements.	HIGH
PPH7	Integrated Waste Handling	The Programme includes the following workstreams / projects: Strategy Development and Implementation, Contracts and Procurements, Infrastructure Optimisation and Business Intelligence	To maintain oversight of the Council's approach to the replacement of the current Integrated Waste Handling Contract. To provide assurance over the Council's responsibilities as the Waste Disposal Authority, to ensure suitable arrangements for the disposal of certain wastes and the provision of recycling centres. <i>Also cross cutting with Finance and Technology for the procurement aspects of the programme.</i>	HIGH

Reference	Audit Title	Risk Justification	Proposed Objective / Coverage	Priority
PPH8	Community Volunteering	<p>Potential risks around safeguarding, fraud, information governance, health and safety, insurance.</p> <p>Links in with Sustainable and Healthy Communities with the outcome being to transition the Council from service-led to a citizen-led service to improve health and wellbeing with sustainable shared approaches led by communities themselves.</p>	To provide assurance that we are maximising our identification and recruitment of community volunteers, that roles and responsibilities are clear, the risks of safeguarding, fraud, health and safety and information governance are mitigated, that they are mobilised to the right place, that there is appropriate management oversight and a joined up approach across the Council and multi agency; and that we ensure that after the Covid-19 pandemic that those volunteers that want to continue to be involved in community volunteering stay involved. To also potentially look at how our own staff have / are being redeployed and the robustness and effectiveness of that. To include looking at opportunities for volunteers/agencies to feedback and ways in which lessons can be learned to continually improve.	FLEXIBLE
PPH9	Energy Invoice Processes		To follow up on the recommendations arising from the previous Internal Audit review which received Limited Assurance.	MEDIUM
PPH - ER	Emerging Risks / unallocated		<p>Additional work in this area could include but is not restricted to:</p> <ul style="list-style-type: none"> • Park and Ride • Waste Transformation Programme • Remodelling of the Army and Navy Roundabout • Climate Action 	FLEXIBLE

Reference	Audit Title	Risk Justification	Proposed Objective / Coverage	Priority
Adult Social Care				
ASC1	Liberty Protection Safeguards		Deprivation of Liberty (DoLs) are due to be replaced by Liberty Protection Safeguards (LPS). The target date for implementation (delayed due to Covid-19) is currently 1 April 2022. Prior to this, following a 12-week consultation planned for 2021, both a single Mental Capacity Act and LPS Code of Practice, and regulations, will be laid before Parliament and subsequently published. Internal Audit will look to see how risks are being mitigated to ensure training, transition and implementation plans are robust.	MEDIUM
ASC2	Care Technology	High risk project being delivered via a third party with material cash benefits attached to it. Reputational, financial and safeguarding risks.	To provide assurance over the early governance and project/contract management arrangements of the programme and determination and tracking methodology for realisation of benefits. To provide a watching brief and then a health check on implementation is proposed in early 2022. <i>Also impacts on the Finance and Technology Function.</i>	MEDIUM
ASC3	Debt Monitoring and Enforcement	Risks in this area in relation to the volume and value of debt have increased as a result of Covid-19. Risks include financial, reputational and legal.	To provide assurance over the robustness of the arrangements to identify, record and collect income due to the Council. A 2020/21 audit on Adult Social Care debt (from service users assessed as requiring to contribute towards their care and support) received a Limited Assurance opinion. This audit will include a follow up of those recommendations. The audit will also extend to consider the impact of the level of debt and debt monitoring arising from the new Financial Assessment processes. <i>Also cross cutting with Finance and Technology Function</i>	HIGH
ASC4	Better Care Fund	ECC may not fulfil its accountable body role and / or	It is a requirement of the current Section 75 Agreement (between ECC and the 5 Essex Clinical Commissioning	HIGH

Reference	Audit Title	Risk Justification	Proposed Objective / Coverage	Priority
		the Pooled Fund may not be used in accordance with the Fund Conditions, key government targets may be missed resulting in poor outcomes / reputational damage and financial risks.	Groups (CCGs) that the Host Partner (i.e. ECC) shall arrange for an annual audit of the accounts of the Pooled Fund and to certify the annual return. To also provide advice and guidance on the control environment and assurance mechanisms of any proposed new arrangements.	
ASC5	Essex Social Care Academy	A highly skilled and effectively trained workforce is essential to the delivery of quality services within Adult Social Care and Children, Families and Education	To provide assurance that ESCA's activities are aligned to ECC's strategic priorities, professional standards, capability frameworks and codes of conduct and that the Academy supports and delivers practitioners' / the workforce's continuous professional development (CPD) requirements and represents good value for money <i>Note that ESCA is jointly funded by ASC and C&F</i>	MEDIUM
ASC - ER	Emerging Risks / unallocated	Safeguarding risks, value for money, risks around ensuring appropriate and timely support to vulnerable adults and their carers. Statutory requirements may not be met.	Additional work in this area could include but is not restricted to: <ul style="list-style-type: none"> • Direct Payments Redesign • Day Opportunities Framework • Transforming Mental Health • Management Information and KPIs • Emerging Integrated Care Systems • Carers 	
Counter Fraud Prevention, Detection and Investigation Plan				
Prevention and Detection				
Adult Social Care Finance and Technology	Fraud Awareness Workshops - programme of fraud awareness	Fraud awareness.	Fraud awareness workshops (virtual). Initial focus on Direct Payment Monitoring Team, Financial Assessment Teams, Pre-Paid Compliance Teams, Procurement, Blue Badge Team, Parking Enforcement Officers etc.	MEDIUM

Reference	Audit Title	Risk Justification	Proposed Objective / Coverage	Priority
	training sessions / Fraud Awareness Week Comms etc			
	Fraud Risk Workshops / Update Fraud Risk Register	Fraud awareness.	Annual workshops with service areas to update fraud risk register.	MEDIUM
	Attendance at Counter Fraud Hub meetings (South East Hub & Essex Hub)	Fraud awareness, collaborative working and networking to consider emerging risk areas.	Quarterly meetings. 1/2 day per meeting (as mostly conducted virtually).	FLEXIBLE
	Annual review of policy & strategy documents	Updating key policies to ensure compliance with any legislative changes.	Counter Fraud Strategy, Counter Fraud Manual, Anti-Bribery Policy, Money Laundering Policy, Sanction Policy, RIPA Policy, CIPFA Self-Assessment Tool.	HIGH
	CIPFA Tracker Survey / Benchmarking Activity	Benchmarking against similar authorities.	Annual completion of CIPFA Tracker and Benchmarking Data (with Counter Fraud Hub).	FLEXIBLE
	Review against CIPFA Self- Assessment tool	Annual re-assessment against CIPFA standards to assess ECC's position and inform the Annual Governance Statement.	Annual re-assessment against CIPFA standards to assess ECC's position and inform the Annual Governance Statement.	FLEXIBLE
	Pan Essex Data Matching	Fraud Prevention & Detection.	Submission of data sets on a monthly basis and investigation of returned matches - estimate of 1 days per month plus attendance at workshops / meetings.	HIGH

Reference	Audit Title	Risk Justification	Proposed Objective / Coverage	Priority
Adult Social Care, Children Families and Education, Place and Public Health, Finance and Technology	Internal Data Matching / Data Analysis	Fraud Prevention & Detection.	Programme of internal data matching to be developed. Estimated 20 days per quarter to complete matching exercise and investigate matches. Data matching exercise to include quarterly matching for: <ul style="list-style-type: none"> • ASC data • Payroll • Grant claims and additional funding • Foster Carers payments • Early Years Funding • Public Health. 	HIGH
	National Fraud Initiative (NFI)	Fraud Prevention & Detection.	Matches returned during February / March 2021 will be investigated throughout the year. Matches include payroll, pensions, creditors, blue badge, concessionary travel and mortality matches. Investigation will run to autumn 2021 due to volume of matches.	HIGH
	NFI Fraud Hub	Fraud Prevention & Detection.	Involvement in development of potential data matching. Liaise with Midlands hub / CIPFA re social care matches / developments.	MEDIUM
Investigation and Sanction				
All Functions	Investigations - Referrals and Case Investigation (reactive, including advice & guidance)	Investigation.	Log, prioritise and investigate referrals.	HIGH
	Blue Badge Referrals	Investigation.	Log, prioritise and investigate referrals.	FLEXIBLE

Operational Responsibilities of the Chief Audit Executive

The Chief Audit Executive (i.e. the Head of Assurance) is responsible for the following operational areas:

- Internal Audit and Counter Fraud
- Health and Safety
- Emergency Planning and Resilience
- Risk and Insurance.

Reviews of Counter Fraud and Insurance were carried out in the 2019/20 financial year and both received Satisfactory Assurance. These reviews were carried out by a firm of external auditors to ensure independence of the process. These have not been included in the 2021/22 Internal Audit and Counter Fraud Plan.

Risk and Health & Safety were both audited in 2020/21 and have both been included in the 2021/2022 Plan.

Business Continuity was included in the 2020/21 Plan but a full review was not undertaken due to the Emergency Planning and Resilience Team responding to the Covid-19 pandemic. Business Continuity has been included in the 2021/2022 Plan

AGS/08/21	
Report title: Audit Committee Effectiveness Review – Annual Progress Update	
Report to: Audit, Governance and Standards Committee	
Report author: Paul Turner, Director, Legal and Assurance	
Date: 22 March 2021	For: Approval
Enquiries to: Paul Turner, paul.turner@essex.gov.uk or Paula Clowes – Head of Assurance paula.clowes@essex.gov.uk	
County Divisions affected: All Essex	

1. Purpose of Report

- 1.1 This report asks Committee to review and agree progress against the action plan produced following the effectiveness review undertaken in March 2020 and consider and approve the suggested approach to the skills and knowledge assessment process.

2. Recommendations

- 2.1 Note the progress against the action plan at set out in appendix 2.
- 2.2 Agree that the Skills and Knowledge Assessment should take place after the annual meeting of the Council in May 2021.
- 2.3 Agree to hold an AGS Members training workshop after the election to provide both induction for new members and refresher training for existing members.

3. Background

- 3.1 In March 2020 the Chartered Institute of Public Finance and Accountancy (CIPFA) were commissioned to support the AGS Committee to undertake a review of its effectiveness. This is in line with recommended practice.
- 3.2 Accordingly on 9 March 2020 a workshop took place facilitated by CIPFA. All members of the committee were invited and eight members attended. As a result an action plan has was produced that was adopted by the committee at its informal meeting on the 21 March 2020.
- 3.3 The Committee also committed to annually consider its effectiveness and to continue to reflect on its own performance.

4. Summary of Issue

- 4.1 It is recognised best practice that Audit Committees should regularly review their effectiveness as a committee and their individual skills and knowledge. The CIPFA publication 'Audit Committees: Practical Guidance for Local Authorities and Police (2018 Edition)' provides a range of tools and checklists for committees to use to assess their effectiveness. (Appendix 1)
- 4.2 The AGS Committee, with support from CIPFA, carried out a review of its effectiveness in March 2020. As a result an action plan was produced and this has, in the main, been implemented. A full review of progress has been carried out is attached at appendix 2 for the committee to consider.
- 4.3 Only one matter included on the action plan remains outstanding, item four, 'undertake an annual skills and knowledge self-assessment to determine where skills and knowledge need to be enhanced on an annual basis'. It is proposed that this activity should be carried out after the annual meeting to allow any new members of the committee to participate.
- 4.4 The suggested approach to the skills and knowledge assessment is based on the appendix c of 'Audit Committees: Practical Guidance for Local Authorities and Police (2018 Edition)'. The proposed process is as follows:
- Questionnaires will be prepared based on the skills and knowledge requirements set out in Appendix C of CIPFA guidance.
 - AGS members will be asked to complete these questionnaires, assessing their own level of skill and knowledge in the subject area based on a 1-5 rating.
 - The Internal Audit Team will analyse the questionnaires to identify the areas where skills and knowledge need enhancement.
 - In conjunction with AGS committee members a training and development programme will be developed for the coming year starting with a training workshop to be held after the annual meeting.

5. Financial Implications

- 5.1 It is likely that there will be an increased requirement for officer support to the committee but officers believe that this can be met within existing resources.

6. Legal Implications

- 6.1 The Audit Committee is a key way in which the Council provides assurance that it is providing value for money and has proper systems of control. Without effective assurance Councillors will not know that the Council is effectively carrying out its statutory duties. Whilst the effectiveness review is not a legal requirement it seems a good idea in order to maximise the investment made by councillors into the work of the Committee.

7. Equality and Diversity Implications

7.1 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.

7.2 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 this report.

8. List of Appendices

1. CIPFA Audit Committees: Practical Guidance for Local Authorities and Police (2018 Edition)
2. Updated action plan.

9. List of Background Papers

None

audit committees

Practical Guidance for
Local Authorities and Police
2018 Edition



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audit committees

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Thanks also to the audit committee members who have attended our training courses for providing their insight into the challenges, frustrations and rewards of being an audit committee member. I hope that this publication can support you in undertaking your important work.



Diana Melville

Governance Advisor, CIPFA

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CHAPTER 1

Introduction

This publication sets out CIPFA's guidance on the function and operation of audit committees in local authorities and police bodies, and represents best practice for audit committees in local authorities throughout the UK and for police audit committees in England and Wales.

This publication incorporates *CIPFA's Position Statement: Audit Committees in Local Authorities and Police (2018)* ('the Position Statement'), which sets out CIPFA's view of the role and functions of an audit committee and replaces the previous 2013 Position Statement. Throughout the Position Statement the terms 'authority' and 'authorities' are used to include police and crime commissioners (PCCs) and chief constables as well as local authorities and fire and rescue authorities.

The Position Statement emphasises the importance of audit committees being in place in all principal local authorities and police bodies. It also recognises that audit committees are a key component of governance.

The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. In police bodies 'those charged with governance' are the PCC and the chief constable.

Audit committees are an important source of assurance about an organisation's arrangements for managing risk, maintaining an effective control environment and reporting on financial and other performance. The way in which an audit committee is organised will vary depending on the specific political and management arrangements in place in any organisation. This guidance therefore explores how audit committees relate to organisations' different arrangements for managing and governing themselves.

Audit committees in local authorities and police bodies are necessary to satisfy the wider requirements for sound financial management and internal control. For example in England, the [Accounts and Audit \(England\) Regulations 2015](#) state that a local authority is responsible "for a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective and includes effective arrangements for the management of risk". In addition, in England, Section 151 of the [Local Government Act 1972](#) requires every local authority to "make arrangements for the proper administration of its financial affairs".

Regardless of the specific legislative or regulatory framework, the chief financial officer (CFO) has overarching responsibility for discharging the requirement for sound financial management. To be truly effective, the CFO requires an effective audit committee to provide support and challenge. An essential role for the audit committee is to oversee internal audit,

helping to ensure that it is adequate and effective. Both these elements are now enshrined in the [Public Sector Internal Audit Standards \(PSIAS\)](#) and the supporting [Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards \(LGAN\)](#).

There have been a number of significant developments in governance and audit practice since 2013 which have emphasised the importance of the audit committee. Key developments include:

- the new [Delivering Good Governance in Local Government: Framework](#) (CIPFA/Solace, 2016)
- updates to the PSIAS in 2016 and 2017
- the [Code of Practice on Managing the Risk of Fraud and Corruption](#) (CIPFA, 2014).

Legislation has also had an impact, in particular the [Local Audit and Accountability Act 2014](#), which introduced changes to the appointment of external auditors. The new combined authorities must also establish an audit committee in accordance with statutory regulations. For police bodies, the operation of joint audit committees supporting both the PCC and the chief constable have now completed a full term and further changes are on the horizon.

The [Policing and Crime Act 2017](#) enables a PCC (following local consultation and approval from the secretary of state) to take on the governance of its local fire and rescue service(s) to become the fire and rescue authority, known as a police and crime commissioner fire and rescue authority (PCC FRA). This would be a separate legal entity from the PCC.

The PCC FRA would be a corporation sole and a fire and rescue authority. There would therefore be the need for appropriate audit committee arrangements. Guidance on this is expected to be included in the [Financial Management Code of Practice for the Police Forces of England and Wales](#) (Home Office, 2013 – due to be updated in 2018). The aim of this publication is to support fire and rescue authority and police audit committees in performing effectively.

Best practice dictates that governance, risk management and strong financial controls be embedded in the daily and regular business of an organisation. The existence of an audit committee does not remove responsibility from senior managers, members and leaders, but provides an opportunity and resource to focus on these issues. For police audit committees, there is a requirement to have independent members on the audit committee and Welsh authorities and English combined authorities must also include at least one independent member. CIPFA considers that this is in line with good practice. In establishing their audit committees, other authorities should recognise the need to demonstrate good governance principles and independence from the executive and other political allegiances.

This guidance is applicable to all principal local authorities and fire and rescue authorities in the UK, and to the independent audit committees established to support PCCs and chief constables. Where there is specific legislation or guidance relevant for one sector or devolved government, this has been highlighted in the publication.

CIPFA's Position Statement: Audit Committees in Local Authorities and Police

The scope of this Position Statement includes all principal local authorities in the UK, the audit committees for PCCs and chief constables in England and Wales, and the audit committees of fire and rescue authorities.

- 1 Audit committees are a key component of an authority's governance framework. Their function is to provide an independent and high-level resource to support good governance and strong public financial management.
- 2 The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes. By overseeing both internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.
- 3 Authorities and police audit committees should adopt a model that establishes the committee as independent and effective. The committee should:
 - act as the principal non-executive, advisory function supporting those charged with governance
 - in local authorities, be independent of both the executive and the scrutiny functions and include an independent member where not already required to do so by legislation
 - in police bodies, be independent of the executive or operational responsibilities of the PCC or chief constable
 - have clear rights of access to other committees/functions, for example, scrutiny and service committees, corporate risk management boards and other strategic groups
 - be directly accountable to the authority's governing body or the PCC and chief constable.
- 4 The core functions of an audit committee are to:
 - be satisfied that the authority's assurance statements, including the annual governance statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievement of the authority's objectives
 - in relation to the authority's internal audit functions:
 - oversee its independence, objectivity, performance and professionalism
 - support the effectiveness of the internal audit process

- promote the effective use of internal audit within the assurance framework
 - consider the effectiveness of the authority’s risk management arrangements and the control environment, reviewing the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships and collaborations with other organisations
 - monitor the effectiveness of the control environment, including arrangements for ensuring value for money, supporting standards and ethics and for managing the authority’s exposure to the risks of fraud and corruption
 - consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control
 - support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process.
 - review the financial statements, external auditor’s opinion and reports to members, and monitor management action in response to the issues raised by external audit.
- 5 An audit committee can also support its authority by undertaking a wider role in other areas including:
- considering governance, risk or control matters at the request of other committees or statutory officers
 - working with local standards and ethics committees to support ethical values
 - reviewing and monitoring treasury management arrangements in accordance with [Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes](#) (CIPFA, 2017)
 - providing oversight of other public reports, such as the annual report.
- 6 Good audit committees are characterised by:
- a membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. The political balance of a formal committee of a council will reflect the political balance of the council, however, it is important to achieve the right mix of apolitical expertise
 - a membership that is supportive of good governance principles and their practical application towards the achievement of organisational objectives
 - a strong independently minded chair – displaying a depth of knowledge, skills and interest. There are many personal qualities needed to be an effective chair, but key to these are:
 - promoting apolitical open discussion
 - managing meetings to cover all business and encouraging a candid approach from all participants
 - an interest in and knowledge of financial and risk management, audit, accounting concepts and standards, and the regulatory regime
 - unbiased attitudes – treating auditors, the executive and management fairly
 - the ability to challenge the executive and senior managers when required.

- 7 To discharge its responsibilities effectively the committee should:
- meet regularly – at least four times a year, and have a clear policy on those items to be considered in private and those to be considered in public
 - be able to meet privately and separately with the external auditor and with the head of internal audit
 - include, as regular attendees, the CFO(s), the chief executive, the head of internal audit and the appointed external auditor. Other attendees may include the monitoring officer (for standards issues) and the head of resources (where such a post exists). These officers should also be able to access the committee, or the chair, as required
 - have the right to call any other officers or agencies of the authority as required, while recognising the independence of the chief constable in relation to operational policing matters
 - report regularly on its work to those charged with governance, and at least annually report an assessment of their performance. An annual public report should demonstrate how the committee has discharged its responsibilities.

The purpose of audit committees

Extract from the Position Statement

- 1** Audit committees are a key component of an authority's governance framework. Their function is to provide an independent and high level resource to support good governance and strong public financial management.
- 2** The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes. By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.

The overall aim of good governance is to ensure that:

- resources are directed in accordance with agreed policy and according to priorities
- there is sound and inclusive decision making
- there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

Governance is defined in [Delivering Good Governance in Local Government: Framework](#) (CIPFA/Solace, 2016) as follows:

- *Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.*
- *To deliver good governance in the public sector, both governing bodies and individuals working for public sector entities must try to achieve their entity's objectives while acting in the public interest at all times.*

Good governance is ultimately the responsibility of the governing body, as well as those with leadership roles and statutory responsibilities in the organisation, including the chief executive, the CFO and the monitoring officer. In local government, the governing body is the full council or authority and both the PCC and chief constable are responsible as a corporation sole.

The audit committee should play a key role in supporting the discharge of those responsibilities by providing a high-level focus on audit, assurance and reporting. In local government, this committee may be delegated some governance responsibilities by the council; the police audit committee must remain an advisory body to the PCC and the chief constable. New policing arrangements were established by the [Police Reform and Social Responsibility Act 2011](#). Guidance for police audit committees is contained in the [Financial](#)

Management Code of Practice for the Police Forces of England and Wales (Home Office, 2013 – due to be updated in 2018).

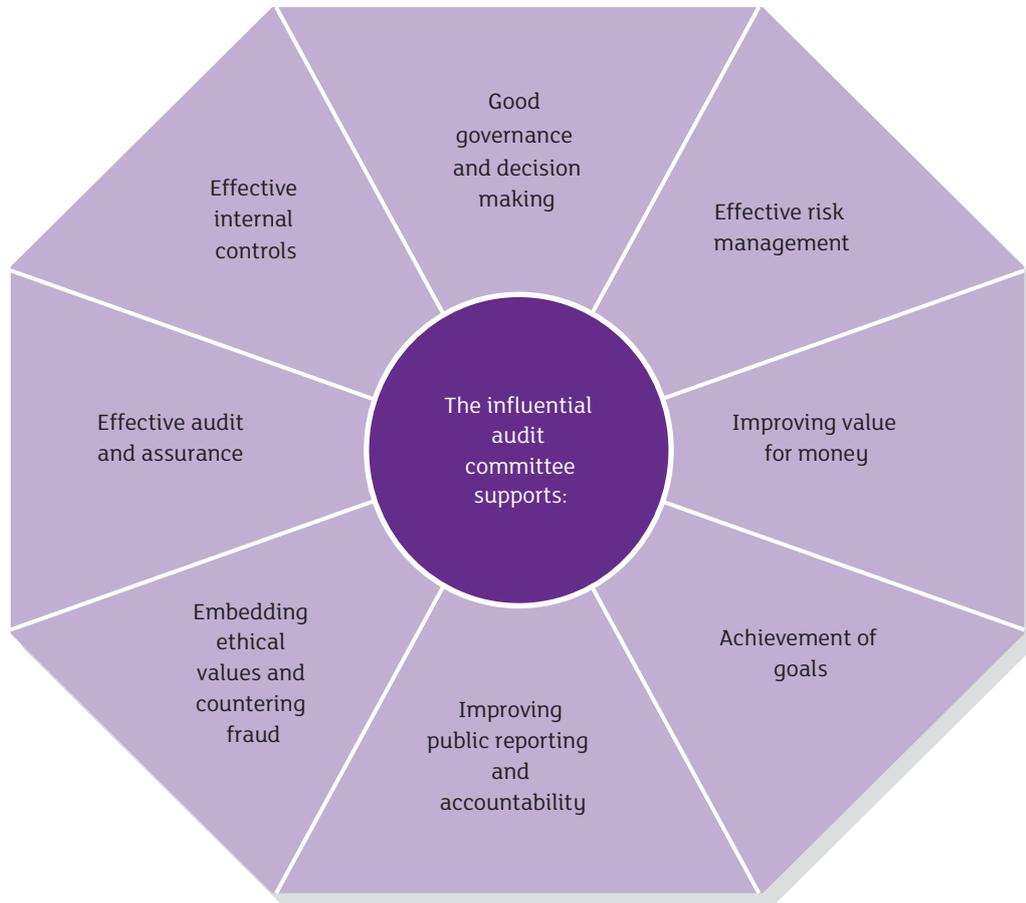
As a key component of an organisation’s governance arrangements, the audit committee has the potential to be a valuable resource to the whole authority. Where it operates effectively, an audit committee adds value to its authority by supporting improvement across a range of objectives. To achieve wide-ranging influence, an audit committee will need commitment and energy from the membership together with support and openness from the authority.

The principal areas where the committee can influence and add value are:

- promoting the principles of good governance and their application to decision making
- raising awareness of the need for sound internal control and contributing to the development of an effective control environment
- supporting arrangements for the governance of risk and for effective arrangements to manage risks
- advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively
- reinforcing the objectivity, importance and independence of internal audit and external audit and therefore the effectiveness of the audit functions
- aiding the achievement of the authority’s goals and objectives through helping ensure appropriate governance, risk, control and assurance arrangements
- supporting the development of robust arrangements for ensuring value for money
- helping the authority to implement the values of ethical governance, including effective arrangements for countering risks of fraud and corruption
- promoting measures to improve transparency and accountability and effective public reporting to the authority’s stakeholders and the local community.

The influence that an effective audit committee is able to have in these areas is set out in Figure 3.1 below.

Figure 3.1: The influential audit committee



Source: Audit Committees: Practical Guidance for Local Authorities and Police (CIPFA, 2013)

CIPFA's view is that audit committee functions can be most effectively delivered by a dedicated audit committee. Such a committee provides a key resource to support the implementation of good governance standards. It is possible for the functions of an audit committee to be undertaken by other bodies, but a dedicated resource is likely to be more knowledgeable and effective, having more time to focus on these important issues.

The core functions of an audit committee

Extract from the Position Statement

- 4 The core functions of an audit committee are to:
- be satisfied that the authority's assurance statements, including the annual governance statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievement of the authority's objectives
 - in relation to the authority's internal audit functions:
 - oversee its independence, objectivity, performance and professionalism
 - support the effectiveness of the internal audit process
 - promote the effective use of internal audit within the assurance framework
 - consider the effectiveness of the authority's risk management arrangements and the control environment, reviewing the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships and collaborations with other organisations
 - monitor the effectiveness of the control environment, including arrangements for ensuring value for money, supporting standards and ethics and for managing the authority's exposure to the risks of fraud and corruption
 - consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control
 - support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process
 - review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.

INTRODUCTION

The core functions that audit committees should undertake reflect both standard practice for audit committees across all sectors and specific legislative and professional standards requirements for the local authority and the police sectors. Reconciling these sometimes different requirements leads to audit committees in local authorities and police bodies having the distinctive features outlined in this guidance.

Principal regulations affecting the functions of the audit committee are outlined in Appendix A, and a suggested terms of reference for the committee is included in Appendix B. The remainder of this chapter provides further background and explanation for the audit committee's core functions.

GOOD GOVERNANCE AND THE ANNUAL GOVERNANCE STATEMENT

Audit committees provide essential support for the approval of the annual governance statement (AGS) and for ensuring that good governance is embedded throughout the authority's day-to-day activities rather than being limited to a once-a-year reporting process. The audit committee is able to support this approach by addressing governance principles in the course of its regular business.

[Delivering Good Governance in Local Government: Framework](#) (CIPFA/Solace, 2016) ('the Framework') sets the standard for governance in UK local government bodies. The Framework is supported by guidance notes for each sector as follows:

- [Delivering Good Governance in Local Government: Guidance Notes for English Authorities](#) (CIPFA/Solace, 2016)
- [Delivering Good Governance in Local Government: Guidance Notes for Scottish Authorities](#) (CIPFA/Solace, 2016)
- [Delivering Good Governance in Local Government: Guidance Notes for Welsh Authorities](#) (CIPFA/Solace, 2016).
- [Delivering Good Governance: Guidance Notes for Policing Bodies in England and Wales](#) (CIPFA, 2016).

The Framework is principles based and informs the approach to good governance adopted by PCCs and chief constables as well as local authorities and fire and rescue authorities. CIPFA recommends that each authority develops a local code of governance setting out how it applies the principles.

Legislation requires local authorities, fire and rescue authorities and police bodies to prepare an AGS and to report publicly on the effectiveness of governance and control (see Appendix A for details of the legislative requirements). The AGS should be reviewed and then approved by a body of the authority prior to being signed by the leading member and the chief executive of an authority and by the PCC and chief constable. Typically, audit committees undertake the role of reviewing the AGS prior to approval. Police audit committees should review the AGS of both the PCC and the chief constable.

Statutory and professional guidelines will determine when the AGS goes before the audit committee for review. For example, English local authorities under the [Accounts and Audit Regulations 2015](#) must approve and publish the AGS by 31 July at the latest for the financial year starting 2017 and thereafter. CIPFA recommends that the AGS is first reviewed by members of the audit committee at an earlier stage to allow comments and contributions to be made. The AGS must be current at the time it is published, so the audit committee should review it before final approval.

To provide a meaningful review of the AGS, the audit committee should be in a position to draw on knowledge of the governance arrangements as they are established and on

assurances of how they have operated in practice during the course of the year. The audit committee should undertake the following activities to discharge their responsibilities:

- review the local code of governance and any changes to the arrangements in the year (note it is not the responsibility of the audit committee to establish any local code, but it should be consulted)
- ensure that the AGS is underpinned by a framework of assurance (see later section for more details on assurance planning)
- over the course of the year, receive reports and assurances over the application of the governance arrangements in practice
- monitor implementation of action plans or recommendations to improve governance arrangements
- consider how the organisation applies governance principles in practice during the committee's review of other agenda items.

Given its role in overseeing the local code of governance and the AGS, the audit committee has an opportunity to promote the implementation of the principles of good governance across the authority: to make things better in the future, not just reviewing what happened in the past. For example, the committee may make recommendations for action to senior management or refer matters to other committees. The limits to the decision-making powers of audit committees are considered in more depth in Chapter 6.

INTERNAL AUDIT

The audit committee has a clear role in relation to oversight of the authority's internal audit function. From 1 April 2013, internal auditors throughout local and central government and health have had to follow the PSIAS and the LGAN. All principal local authorities and other relevant bodies subject to the [Accounts and Audit Regulations 2015](#), the [Accounts and Audit \(Wales\) Regulations 2014](#), the [Local Authority Accounts \(Scotland\) Regulations 2014](#) and the [Local Government \(Accounts and Audit\) Regulations \(Northern Ireland\) 2015](#) must make provision for internal audit in accordance with the PSIAS and LGAN.

The PSIAS include the Mission of Internal Audit, Code of Ethics, Definition of Internal Auditing and the Core Principles for the Professional Practice of Internal Auditing, and together these highlight the importance of effective internal audit to those in the organisation who are responsible for governance.

In its adoption of the PSIAS and LGAN, each authority or police body should consider which committee or individual is the most appropriate to fulfil the role of the board in relation to internal audit. In determining the functional reporting arrangements of internal audit, the authority will need to bear in mind the need to preserve the independence and objectivity of internal audit as required by the PSIAS. It is for these reasons that in the LGAN, CIPFA expressed an expectation that the audit committee would fulfil the role of the board in the majority of instances. Since police audit committees must remain advisory bodies, their role will be to support and review the functional reporting arrangements.

It is a requirement of the PSIAS that the terms of reference of the audit committee should reflect the functional reporting arrangements of internal audit to the audit committee as set

out in the internal audit charter, which is the formal document that defines internal audit's purpose, authority and responsibility.

The role of the audit committee in relation to internal audit is to:

1. oversee its independence, objectivity, performance and professionalism
2. support the effectiveness of the internal audit process
3. promote the effective use of internal audit within the assurance framework.

Within police bodies this is an advisory role for the audit committee.

The specific activities that these three objectives lead to are considered below.

Oversee independence, objectivity, performance and professionalism

The following activities are the functional reporting arrangements set out in the PSIAS to ensure the organisational independence of internal audit. According to the specific internal audit charter of the authority, the audit committee could have a role to:

- review or approve the following:
 - the internal audit charter
 - the risk-based internal audit plan
 - the internal audit budget and resource plan
- receive confirmation of the organisational independence of the internal audit activity
- consider the appointment and removal of the head of internal audit or the award of a contract for internal audit services
- make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations
- approve and periodically review any safeguards put in place to limit impairments to independence and objectivity where the head of internal audit has been asked to undertake any additional roles/responsibilities outside of internal auditing
- receive the annual report, which includes:
 - the annual opinion on the overall adequacy and effectiveness of governance, risk management and control
 - a summary of the work on which internal audit has based the opinion
 - a statement on conformance with the PSIAS and the LGAN
 - the results of the quality assurance and improvement programme, including specific detail as required in the PSIAS
- discuss with the head of internal audit the form of the external assessment of internal audit and the qualifications and independence of the assessor.

The head of internal audit or chief internal auditor (referred to in the PSIAS and the LGAN as 'chief audit executive') must have free and unfettered access to the chair of the audit committee. In addition, the chair of the audit committee may serve as sponsor for the external assessment, which forms part of the quality assurance and improvement programme (QAIP) at least once every five years.

Support the effectiveness of the internal audit process

The audit committee has an important role to play in supporting the process of internal audit and outputs from audit work. The following activities form a core part of this:

- receiving updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work
- receiving communications from the head of internal audit on the internal audit activity's performance relative to its plan and other matters
- giving approval to internal audit for any significant additional consulting services not already included in the audit plan, prior to internal audit accepting an engagement
- receiving reports on instances where the internal audit function does not conform to the PSIAS or LGAN and considering whether the non-conformance is sufficiently significant that it must be included in the AGS
- overseeing the relationship of internal audit with other assurance providers and with external audit and any inspectorates
- receiving regular reports on the results of the QAIP, including the external assessment.

Promote the effective use of internal audit within the assurance framework

The audit committee should make best use of the internal audit resource within the assurance framework. In particular, the audit committee should seek confirmation from internal audit that the audit plan takes into account the requirement to produce an annual internal audit opinion that can be used to inform the AGS. Specific activities will include:

- approving (but not directing) the risk-based plan, considering the use made of other sources of assurance
- receiving reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority
- when considering the AGS, taking into account internal audit's opinion on the overall adequacy and effectiveness of the authority's framework of governance, risk management and control.

Those audit committees that operate under the Local Authority Accounts (Scotland) Regulations 2014 and the Accounts and Audit (Wales) Regulations 2014 must conduct a review of the effectiveness of their internal audit annually (Appendix A includes details of the relevant regulations). The audit committee should take into account internal audit's QAIP when conducting such a review.

The [CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations](#) (CIPFA, 2010 – due to be updated in 2018) states that engagement between the head of internal audit and the audit committee is a crucial component of delivering an effective internal audit service.

Audit committee members should keep up to date with changes affecting the professional practices and expectations of internal auditors so that they can provide the necessary support.

RISK MANAGEMENT

In determining the audit committee's responsibilities towards risk management, authorities should have regard to the responsibilities of other committees such as scrutiny committees and the specific responsibilities of those charged with governance in relation to risk management. Where a local authority establishes a separate risk committee, then its roles and responsibilities need to be taken into account in determining the role of the audit committee. Police audit committees are directed in the [Financial Management Code of Practice for the Police Forces of England and Wales](#) (Home Office, 2013 – due to be updated in 2018) to advise the PCC and the chief constable on the adoption of appropriate risk management arrangements. Welsh local authority and English combined authority audit committees are required to review and assess risk management arrangements.

Assurance over risk management will be a key element underpinning the AGS. The audit committee also needs a good understanding of the level of assurance risk management provides when it reviews the risk-based internal audit plan or reviews other assurances on areas of risk.

The role of the audit committee in relation to risk management covers three major areas:

- First, assurance over the governance of risk, including leadership, integration of risk management into wider governance arrangements and the top level ownership and accountability for risks. The specific actions this requires include:
 - overseeing the authority's risk management policy and strategy and their implementation in practice
 - overseeing the integration of risk management into the governance and decision-making processes of the organisation
 - ensuring that the AGS is an adequate reflection of the risk environment.
- Second, keeping up to date with the risk profile and the effectiveness of risk management actions by:
 - reviewing arrangements to co-ordinate and lead risk management. An example of such an arrangement is the existence of a group to examine, challenge and support the risk assessment process to ensure consistency
 - reviewing the risk profile and keeping up to date with significant areas of strategic risks and major operational or major project risks and seeking assurance that these risks are managed effectively and owned appropriately
 - seeking assurance that strategies and policies are supported by adequate risk assessments and that risks are being actively managed and monitored
 - following up risks identified by auditors and inspectors to ensure they are integrated into the risk management process.
- Third, monitoring the effectiveness of risk management arrangements and supporting the development and embedding of good practice in risk management by:
 - overseeing any evaluation or assessment such as a risk maturity assessment or risk benchmarking
 - reviewing evaluation or assurance reports on risk management and monitoring progress on improvement plans

- monitoring action plans and development work in the field of risk management practice.

Flexibility in the audit committee agenda to adapt to new or heightened risks will ensure that the committee is responsive and focused on priority issues.

ASSURANCE FRAMEWORKS AND ASSURANCE PLANNING

Authorities may have developed a description or diagram explaining what assurances exist and who is responsible for them. Such descriptions may be described as an assurance framework or assurance map. Typically, they outline key areas of the assurances required by the audit committee, such as on governance, risks and controls, and they identify the assurance providers. These may include internal audit, risk management advisors and management. The audit committee should support initiatives to identify and evaluate assurance in this way.

Whether or not there is a formally set-down assurance framework, the audit committee has a responsibility to understand what assurance is available to support the AGS and to enable the committee to meet its terms of reference. The committee should be seeking to ensure that assurance is planned and delivered with the following objectives in mind:

- clarity of what assurance is required
- clear allocation of responsibility for providing assurance
- avoiding duplication, bearing in mind the differing objectives of assurance activities
- improving the efficiency and cost effectiveness of assurance
- obtaining assurance of appropriate rigour and independence across a range of assurance providers.

Having a clear assurance framework in place will assist the committee in a number of areas. It supports the annual review of effectiveness for the AGS. It also supports the approval of the internal audit risk-based plan as it enables the committee to identify the extent to which it will rely on internal audit for its assurance requirements. In reviewing assurance arrangements, the committee should bear in mind that the assurance process has a cost to the organisation and it should therefore be proportional to the risk.

VALUE FOR MONEY AND BEST VALUE

Making best use of resources is a key objective for all local authorities and it is part of the Framework. One of the behaviours and actions that underpin Principle C of the Framework is “delivering defined outcomes on a sustainable basis within the resources that will be available”.

Under Sections 2, 3 and 35 of the [Police Reform and Social Responsibility Act 2011](#), the chief constable has statutory responsibility to secure value for money (VfM) and the PCC to hold the chief constable to account for this duty. The audit committee’s role is to support both the PCC and chief constable to fulfil their responsibilities through the assurance process.

Assurance should focus on both the arrangements to ensure and the progress in achieving VfM. An authority should have in place arrangements to obtain assurance over its performance

against VfM objectives and strategies. The role of the audit committee will need to be determined in the context of what other committees may be doing. For example, a scrutiny committee may oversee service reviews that consider performance against VfM objectives.

The role of the audit committee is most likely to focus on whether the authority's overall approach to VfM is in line with governance objectives and to receive assurances on this to underpin the AGS. The Framework emphasises that the AGS should be focused on outcomes and VfM.

One specific area of activity for the committee will be consideration of the external auditor's wider work as set out in the codes of audit practice and other guidance adopted by national audit bodies as follows:

- **England** – statutory value for money conclusion as defined by the National Audit Office
- **Scotland** – periodic reviews of best value
- **Wales** – Wales Audit Office annual improvement reports
- **Northern Ireland** – review of arrangements for the use of resources.

Where the external auditor has issued a qualified conclusion on VfM, the audit committee should ensure there is a robust action plan to address the issues raised. In addition, the audit committee should consider what other assurances are available in relation to identified VfM risks and highlight areas for improvement.

COUNTERING FRAUD AND CORRUPTION

Local authorities have responsibilities for the effective stewardship of public money and for safeguarding against losses due to fraud and corruption. Effective counter fraud arrangements also link to the ethical standards for members and officers that the public expects.

The audit committee should have oversight of the authority's counter fraud strategy, assessing whether it meets recommended practice and governance standards and complies with legislation such as the [Bribery Act 2010](#).

The [Code of Practice on Managing the Risk of Fraud and Corruption](#) (CIPFA, 2014) ('the Code') sets out the counter fraud standards for public sector organisations; sector-specific strategies such as [Fighting Fraud and Corruption Locally](#) should also be considered, along with the [CIPFA Fraud and Corruption Tracker](#) (CFaCT) and [Integrity Matters](#) (HMIC, 2015). The committee should understand the level of fraud risk to which the authority is exposed and the implications for the wider control environment.

Oversight of counter fraud plans, resources and their effectiveness are key areas for obtaining assurance. Specific actions should include:

- reviewing the counter fraud strategy and considering whether it meets recommended practices
- championing good counter fraud and anti-corruption practice to the wider organisation
- reviewing the fraud risk profile and estimate of fraud losses or potential harm to the organisation and its local community

- reviewing the annual counter fraud plan of activity and resources, seeking assurance that it is in line with the strategy and fraud risk profile
- monitoring the performance of the counter fraud function
- overseeing any major areas of fraud identified and monitoring action plans to address control weaknesses.

The CIPFA guidance on the AGS included in the Framework recommends that the adequacy of counter fraud arrangements are evaluated and reported on in the AGS with reference to the Code. The audit committee should have sight of the assurances underpinning this assessment and can play an important role in supporting the development of effective counter fraud and corruption practice. The audit committee may also refer to the Internal Audit Standards Advisory Board's guidance [Internal Audit's Role in Counter Fraud](#) (2017), which sets out internal audit's responsibility to provide assurance to the organisation on how it manages fraud risk.

EXTERNAL AUDIT

Appointment of auditors

Audit committees have a role to play in relation to the appointment of external auditors. This role varies between England, Scotland, Wales and Northern Ireland, primarily due to the change in appointment procedures for English authorities with the closure of the Audit Commission and the introduction of new local audit arrangements under the [Local Audit and Accountability Act 2014](#).

In Scotland, Wales and Northern Ireland, national audit agencies are responsible for the audits of local bodies. In England, authorities have the option to appoint auditors themselves via means of an auditor panel (individually or jointly with other bodies) or through Public Sector Audit Appointments (PSAA), which has been established by the Local Government Association (LGA) and specified as an 'appointing person' under the 2014 Act. For further information on auditor panels and the role of the audit committee, see [Guide to Auditor Panels](#) (CIPFA, 2015).

The audit committee's role in appointment is generally to express an opinion on the selection and rotation of the external auditor through whichever method is applicable for the organisation. The audit committee's objective is to support auditor independence and effective arrangements and relationships with the auditors.

In England, for all opted-in bodies, PSAA appoints the auditor following consultation with the body. Otherwise, the audit committee will work alongside the auditor panel which will oversee the local appointment process. Where the audit committee members meet the requirements of an auditor panel, as defined in regulations supporting the 2014 Act, then the committee is able to operate as an auditor panel itself and make recommendations on the appointment of the local auditor. Regard must be had for the 2014 Act and regulations if the committee is nominated as an auditor panel.

Monitoring the external audit process

The audit committee's role in relation to the external audit process has three principal aspects:

1. providing assurance that the external auditor team maintains independence following its appointment
2. receiving and considering the work of external audit
3. supporting the quality and effectiveness of the external audit process.

Supporting independence

The independence of auditors is critical for confidence in the audit opinion and audit process. For this reason, there is extensive [guidance](#) from the Financial Reporting Council (FRC) to external auditors on the need to safeguard independence and objectivity. These rules apply to all auditors across all sectors. In addition, the national audit bodies issue guidance to auditors on safeguarding integrity, objectivity and independence. It is an important role for an audit committee to help guard against threats to independence and to satisfy itself that the external auditor's independence is safeguarded. The critical issue of independence will be considered when the external auditor is appointed but the audit committee's role will be to monitor on an annual basis or more often when required.

Each year the external auditor will disclose to the committee an assessment of whether it is independent. This disclosure should include any significant facts that could impact, or be seen to impact, on independence and objectivity, together with any safeguards put in place. Usually this disclosure is included in the audit plan. The audit committee should use this opportunity to discuss with the external auditor their assessment of threats to independence and any safeguards.

Understanding the potential threats to external independence

Self-interest threat

Where there are or perceived to be financial or other interests that could impact on the actions of the external auditor. The potential fees from provision of non-audit or additional services to the audited body could fall within this category.

Self-review threat

Where the audit could include review of work performed, services or advice provided by the same firm or team.

Management threat

Where the auditor has become involved in or associated with decision making of the audited body.

Advocacy threat

Where the auditor has taken on an advocacy role for the audited body or supports the management in an adversarial or promotional context.

Familiarity (or trust) threat

Where familiarity or close personal relationships mean that the external auditor is insufficiently questioning or accepting in forming audit judgements.

Intimidation threat

When the conduct of the external auditor is influenced by fear or threats by individuals in the audited body.

Full details of the threats are set out in the [Revised Ethical Standard 2016](#) (FRC, 2016).

The audit committee should seek information from the external auditor on its policies and processes for maintaining independence and monitoring compliance. It should also satisfy itself that no issues with compliance with the ethical standard have been raised by the contract monitoring undertaken by PSAA or the auditor panel (in England) or from audit quality reviews by the FRC. With regard to non-audit services, audit committees should monitor the approval of non-audit work and, in England, take into account the oversight of either PSAA or the auditor panel as appropriate.

Receiving and considering the work of external audit

The committee should receive the planned work programme to support the opinion and receive reports following the completion of external audit work. Where external audit make recommendations, the audit committee should discuss the action to be taken with the appropriate managers and monitor the agreed action plan. The committee should contribute to the authority's response to the annual audit letter.

Supporting the quality and effectiveness of the external audit process

The audit committee should support the quality and effectiveness of the external audit process through:

- understanding and commenting on external audit plans, assessment of risks and proposed areas of focus, and deployment of audit effort in response to identified risks
- considering the effectiveness of the external audit process, including:
 - whether the external auditor has a good understanding of the authority
 - how the external auditor has responded to areas of audit risk
 - actions taken to safeguard independence and objectivity
 - feedback from key people such as the responsible financial officer and the head of internal audit
- reporting to the full council, or the PCC, or the chief constable or other body as appropriate on the results of its considerations.

In monitoring the quality of the external audit provision, the audit committee should be briefed on any relevant issues around quality that emerge from the regulation of external audit, for example, the quality reports from PSAA and the FRC.

There should be an opportunity for the audit committee to meet privately and separately with the external auditor, independent of the presence of those officers with whom the auditor must retain a working relationship.

Inspection reports

Reports from inspection agencies can be a useful source of assurance about the authority's financial management and governance. The audit committee should have access to inspection reports as a source of assurance and compare the findings with any relevant internal audit and external audit reports. Inspection reports will need to be actioned by the corporate or appropriate departmental management team, but the audit committee has a role in monitoring such action to ensure that a consistent approach is adopted and that the various agencies have one recognisable point of entry into the authority.

FINANCIAL REPORTING

Local authority financial statements should follow the professional practices set down in the *Code of Practice on Local Authority Accounting in the United Kingdom* (CIPFA/LASAAC). The responsible financial officer must sign the statements to confirm that they have been properly prepared and are ready for audit prior to the commencement of the period for the exercise of public rights. For English authorities and policing bodies, the latest date by which the statements must be signed off is likely to be 31 May, as the 30 working day period for the exercise of public rights must include the first ten days in June.

Under the current regulations, Scottish, Welsh and Northern Irish authorities must all ensure that the financial statements are signed off by the CFO by 30 June. The [Accounts and Audit \(Wales\) \(Amendment\) Regulations 2018](#) require preparation and publication to be completed to an earlier timetable with effect from years ending 31 March 2019 onwards. Authorities will formally approve the financial statements after the completion of the external audit.

The date by which the statements must be published is set down by government regulations. For 2017/18 onwards, the latest date for publication is 31 July for English authorities. Scottish and Welsh authorities must publish by 30 September and Northern Irish authorities must

publish by 31 October. CIPFA recommends that it is good practice for the accounts and the AGS to be reviewed by the audit committee prior to the commencement of the external audit.

Audit committees may undertake a review of the statements and satisfy themselves that appropriate steps have been taken to meet statutory and recommended professional practices. Their work could include:

- reviewing the narrative report to ensure consistency with the statements and the financial challenges and risks facing the authority in the future
- reviewing whether the narrative report is readable and understandable by a lay person
- identifying the key messages from each of the financial statements and evaluating what that means for the authority in future years
- monitoring trends and reviewing for consistency with what is known about financial performance over the course of the year
- reviewing the suitability of accounting policies and treatments
- seeking explanations for changes in accounting policies and treatments
- reviewing major judgemental areas, eg provisions or reserves
- seeking assurances that preparations are in place to facilitate the external audit.

[Understanding Local Authority Financial Statements](#) (CIPFA/LASAAC, 2016) includes a checklist of questions to ask about a local authority's statements that audit committee members may find particularly helpful. In keeping with its role as an advisory body, the audit committee should review the financial statements prior to approval.

Other committees in the governance structure might also scrutinise the authority's financial performance. Care should be taken to avoid duplication and maintain the focus of the audit committee on financial reporting and financial governance rather than on wider issues of performance and spending priorities.

PARTNERSHIP GOVERNANCE AND COLLABORATION AGREEMENTS

Authorities commonly have a wide range of partnership and collaborative arrangements, including strategic relationships with other public sector organisations, shared service arrangements, commercial relationships with private sector partners and a range of service delivery arrangements with community groups or social enterprises.

Authorities may also be the accountable body for local enterprise partnerships (LEPs). PCCs may be considering options for collaboration with other relevant emergency services under the [Policing and Crime Act 2017](#). Ensuring the adequacy of governance and risk management over such arrangements can be complicated, but it is very important as accountability for performance and stewardship of the public funds involved remains with the authority. For these reasons, the role of the audit committee in relation to these arrangements should be clearly defined.

The audit committee's role should be to consider the assurance available on whether the partnership or collaboration arrangements are satisfactorily established and are operating effectively. The committee should satisfy itself that the principles of good governance underpin the partnership arrangements. For example, the audit committee should seek

assurance that the authority has appropriate arrangements to identify and manage risks, ensure good governance and obtain assurance on compliance. The committee may also want to know what arrangements have been put in place to maintain accountability to stakeholders and ensure transparency of decision making and standards of probity are maintained.

Where an authority is developing new partnership or collaboration arrangements, the audit committee may wish to receive assurance over governance matters at the project stage and seek clarity over its own responsibilities in relation to the governance arrangements of the new service delivery organisation.

The audit committee should consider the coverage of assurances that underpin the AGS to make sure that partnerships are adequately covered. Where an organisation of which the authority is a partner does not have its own audit committee, then the audit committee could be nominated to undertake this role. This is most likely for the audit committee of the accountable body in order to support the CFO.

In addition to reviewing assurances over partnerships, the committee may choose to develop its own partnership arrangements with the audit committees of partner organisations. This could involve planning and co-ordinating agendas, or developing forums to share ideas or briefings. More established partnerships could lead to the development of a shared audit committee between partner authorities or a joint committee. Chapter 6 considers the implications of partnerships for audit committee independence and accountability.

GOVERNANCE AND ETHICAL VALUES

Public sector entities are accountable not only for how much they spend but also for the ways they use the resources with which they have been entrusted. This is at the heart of Principle A of the Framework:

Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.

With its core role in supporting good governance, support for the ethical framework of the authority is also important for the audit committee. In addition, public sector organisations have an overarching mission to serve the public interest in adhering to the requirements of legislation and government policies. This makes it essential that the entire entity can demonstrate the integrity of all its actions and has mechanisms in place that encourage and enforce a strong commitment to ethical values and legal compliance at all levels. As part of its review of governance arrangements, the audit committee should be satisfied that there are adequate arrangements to achieve this.

All authorities should have regard to the Seven Principles of Public Life, known as the Nolan Principles. To promote high standards of conduct, the Committee on Standards in Public Life has recommended that:

Ethical standards issues should be included as regular items on board agendas or formally delegated to audit and risk committees for referral to the board as appropriate. Risks associated with poor standards should be included in risk assessments, and, where appropriate, risk registers. Mitigating strategies should be developed and monitored.

Source: Standards Matter: A Review of Best Practice in Promoting Good Behaviour in Public Life (Committee on Standards in Public Life, 2013)

As part of the annual governance review, the audit committee should consider how effectively the Seven Principles of Public Life are supported.

Whistleblowing arrangements support the development of ethical conduct and greater transparency, and also help authorities ensure compliance with the [Public Interest Disclosure Act 1998](#). As part of the audit committee's oversight of the governance framework and assurances underpinning the AGS, the audit committee may wish to review the effectiveness of the whistleblowing arrangements.

Possible wider functions of an audit committee

Extract from the Position Statement

- 5** An audit committee can also support its authority by undertaking a wider role in other areas including:
- considering governance, risk or control matters at the request of other committees or statutory officers
 - working with local standards and ethics committees to support ethical values
 - reviewing and monitoring treasury management arrangements in accordance with [Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes](#) (CIPFA, 2017)
 - providing oversight of other public reports, such as the annual report.

CONSIDERING MATTERS AT THE REQUEST OF STATUTORY OFFICERS OR OTHER COMMITTEES

Occasionally the audit committee may be requested to consider a review of a service, a proposed policy or other similar matters. Such requests could come from another committee of the organisation or from one of the statutory officers. In scoping the terms of reference for a review, the committee should avoid taking on a scrutiny or policy role and ensure the matter relates to governance, risk or control. Examples where it may be helpful for the audit committee to assist could include:

- reviewing whether adequate governance, risk management or audit processes are in place in relation to a specific service or new policy area
- providing advice to the executive on possible risks or implications for good governance arising from a proposed course of action or decision.

In each case, the aim of the committee should be to make recommendations in line with its role set out in the Position Statement – advocating the principles of good governance and helping to ensure that there are appropriate governance, risk, control and assurance arrangements in place. Audit committee recommendations may support the advice or recommendations of the statutory officers but cannot override that advice.

ETHICS COMMITTEE AND STANDARDS COMMITTEE ROLES

The audit committee's primary role in relation to standards and ethical conduct is to satisfy itself that there are appropriate arrangements in place, particularly in support of the AGS. Under the [Localism Act 2011](#), English local authorities have a statutory duty to promote and maintain high standards of conduct and the audit committee should consider assurances on the discharge of this responsibility and be satisfied that there are arrangements in place. Occasionally the committee takes on a wider role, in the place of other committees. Specifically, there should be regard for the role and responsibilities of a standards committee, where there is one.

Where the local authority does have a standards committee, the lead on promoting high standards of conduct may be taken by that committee, and the most appropriate role for the audit committee would be to consider the effectiveness of the standards committee as part of the annual governance review. Where the audit committee takes on the responsibilities of the standards committee, there should be a clear distinction between the two roles and responsibilities in the terms of reference and meeting agendas.

Ethics in policing has received a lot of attention in the last few years with a number of reviews and new standards, including:

- the [Code of Ethics](#) (College of Policing, 2014)
- [Tone from the Top: Leadership, Ethics and Accountability in Policing](#) (Committee on Standards in Public Life, 2015)
- [Integrity Matters](#) (HMIC, 2016).

The establishment of an ethics committee to take the lead on this important area and to review and monitor practice is now regarded as best practice. In some policing areas these are separate committees, but in some areas the audit committees have taken on this responsibility.

There is no specific guidance on the operation of the ethics committee, but it is important to distinguish between the roles of the two committees. For the audit committee's governance responsibilities, it is appropriate for the committee to have an understanding of any current ethical risks and any initiatives to improve ethical behaviour within the force or PCC's office.

The audit committee should be satisfied that there are appropriate arrangements in place to support the committee's overview of governance and the AGS. The ethics committee's role will be to help establish and monitor those arrangements in practice, ensuring that the PCC and chief constable fulfill their statutory obligations. Where the audit committee is taking on wider ethics committee roles, then it should be clear within its terms of reference and meeting agendas how it separates the two roles.

TREASURY MANAGEMENT

[Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes](#) (CIPFA, 2017) requires all local authorities to make arrangements for the scrutiny of treasury management. CIPFA does not require the audit committee to undertake that role and a local authority may nominate a [Finance Committee](#) instead. CIPFA is aware, however,

that many authorities have nominated the audit committee to do this, and it is therefore appropriate to consider this activity as part of this guidance. The following clause from the Code should have been adopted by all local authorities and the appropriate body responsible for providing scrutiny nominated:

This organisation nominates (name of responsible body/committee) to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Where the audit committee has been nominated, then it should be aware that it needs to undertake a scrutiny role in accordance with the Code, in addition to any oversight of governance, risks and assurance matters relating to treasury management it would consider as an audit committee. It is not appropriate for the audit committee to undertake any of the other roles outlined in the Code clauses as these are executive and decision-making roles rather than a scrutiny role.

Where the committee is undertaking scrutiny then this is likely to involve the following actions:

- developing greater awareness and understanding of treasury matters among the committee members
- reviewing the treasury management policy and procedures to be satisfied that controls are satisfactory
- receiving regular reports on activities, issues and trends to support the committee's understanding of treasury management activities. Note that the committee is not responsible for the regular monitoring of activity under clause 3 of the Code so the purpose of receiving regular reports should be clear
- reviewing the treasury risk profile and adequacy of treasury risk management processes
- reviewing assurances on treasury management (for example, an internal audit report, external audit or other review).

Treasury management is a specialist area so it is likely that committee members will require training, guidance and support when undertaking scrutiny. Specific areas of knowledge and skills are identified in Appendix C.

Independence and accountability

Extract from the Position Statement

- 3** Authorities and police audit committees should adopt a model that establishes the committee as independent and effective. The committee should:
- act as the principal non-executive, advisory function supporting those charged with governance
 - in local authorities, be independent of both the executive and the scrutiny functions and include an independent member where not already required to do so by legislation
 - in police bodies, be independent of the executive or operational responsibilities of the PCC or chief constable
 - have clear rights of access to other committees/functions, for example, scrutiny and service committees, corporate risk management boards and other strategic groups
 - be directly accountable to the authority's governing body or the PCC and chief constable.
- 7** To discharge its responsibilities effectively the committee should:
- meet regularly – at least four times a year, and have a clear policy on those items to be considered in private and those to be considered in public
 - include, as regular attendees, the CFO(s), the chief executive, the head of internal audit and the appointed external auditor. Other attendees may include the monitoring officer (for standards issues) and the head of resources (where such a post exists). These officers should also be able to access the committee, or the chair, as required
 - have the right to call any other officers or agencies of the authority as required, while recognising the independence of the chief constable in relation to operational policing matters
 - report regularly on its work to those charged with governance, and at least annually report an assessment of their performance. An annual public report should demonstrate how the committee has discharged its responsibilities.

INTRODUCTION

CIPFA is keen that each local authority or police body adopts an audit committee model that achieves its purpose and functions successfully. CIPFA's recommended best practice is intended to support the development of effective arrangements and should not be regarded merely as a compliance checklist.

For a local authority, in CIPFA's view, it is best practice for the audit committee to report directly to council rather than to another committee, as the council itself most closely matches the body of 'those charged with governance'. In the police sector, both the PCC and chief constable are separate corporations sole and so each will fulfil the role of 'those charged with governance'.

In establishing the audit committee within the governance structure of the authority, three key elements should be considered:

1. any statutory guidance applicable to the sector
2. independence from the executive and political allegiances
3. a practical assessment of 'what works' in the local context.

Each of these elements is considered in more detail in the following sections.

SECTOR AND DEVOLVED GOVERNMENT GUIDANCE

The local authority and police sectors are subject to differing regulations according to both sector and devolved national governments. Those affecting audit committees are set out in Appendix A. While there is broad similarity in the guidance across the UK, there are differences as a result of specific statutory guidance and regulations including:

- statutory requirements for audit committees in Wales
- statutory requirements for combined authorities to establish an audit committee
- statutory guidance underpinning the operation of police audit committees in England and Wales.

Local authorities in Wales have a clear statutory role established by the [Local Government \(Wales\) Measure 2011](#). The Welsh Government has provided [statutory guidance](#) on the implementation of the measure's requirements, and local authorities in Wales must have regard to this guidance. The [Cities and Local Government Devolution Act 2016](#) requires combined authorities to establish an audit committee of which at least one member must be appointed as an independent member. The Home Office's [Financial Management Code of Practice for the Police Forces of England and Wales](#) (2013 – due to be updated in 2018) (the 'FMCP') requires PCCs and chief constables to establish an independent audit committee. This is an advisory committee to both the PCC and the chief constable, both of whom are established as a corporation sole.

The [Policing and Crime Act 2017](#) enables a PCC in England (following local consultation and approval from the secretary of state) to take on the governance of their local fire and rescue service(s) to become a PCC FRA. The 2018 edition of the FMCP is likely to include guidance concerning audit committees in this event.

Other regulations include the appropriate accounts and audit regulations for England, Scotland, Wales and Northern Ireland, which regulate functions such as internal audit, the review of the AGS and the accounts. These functions can be undertaken by the audit committee and where it does so, the committee should have regard to the regulations.

Impact of other legislation

The standards committee's role has been affected by the [Localism Act 2011](#) in England, and some authorities have chosen to transfer responsibility for looking at ethical governance matters to the audit committee, while retaining a standards panel to oversee investigations.

Other relevant recommendations

The [Exercise by Local Government Auditors of Their Functions in the Year to 31 March 2015](#), a report produced by the Chief Local Government Auditor of the Northern Ireland Audit Office, commented that in a small number of councils the audit committee was not operating as a full committee. The Chief Local Government Auditor has recommended that audit committees should be a full committee reporting directly to council.

STRUCTURE AND INDEPENDENCE

Local authorities

For local authorities, stand-alone audit committees reporting to full council are the most common arrangement in the UK. The [CIPFA Survey on Audit Committees in Local Authorities and Police 2016](#) found that, across the UK, 85% of councils had audit committees that reported to full council, leaving only 15% that reported via cabinet or other committee. The survey also showed that the number of stand-alone audit committees had declined from 58% to 47% alongside a rise in the number of joint committees. Some joint committees' responsibilities were audit and risk or audit and governance, however, others included responsibilities such as procurement or health and safety. There had also been a small rise in the number of joint audit and standards committees. Another arrangement, more common in Scotland, was the integration of audit committee functions into a policy committee.

Reporting to the executive may appear to be advantageous if it increases the prospect of audit committee recommendations being addressed. However, there are two disadvantages from a wider governance perspective: first, by not reporting to full council ('those charged with governance'), the audit committee may not be supporting that body in discharging its governance responsibilities; and, second, members and citizens may see the audit committee as not being independent of the executive.

Combining audit with other committees may appear to be an attractive arrangement, but there is always a danger either that audit committee functions become diluted by the pressure of other business or that the proper functions of these bodies become less clear. Having a group of members bearing the name 'audit committee' will add weight when considering audit and related issues. Extending the remit of the audit committee to other matters could create confusion about the role of the audit committee and ultimately undermine its effectiveness.

Financial scrutiny is a different role from that fulfilled by the audit committee. Financial scrutiny committees are likely to undertake reviews of the council's budget proposals and financial performance. The audit committee should not seek to replicate scrutiny undertaken but should focus on the oversight of governance, risk and control and the audit process.

However the audit committee is constituted, all members should be aware that the work of the audit committee is non-political. Chapter 7 includes a section on the composition of the audit committee.

Combined authorities

The [Cities and Local Government Devolution Act 2016](#) requires combined authorities to have an audit committee, but there are no requirements about where the committee fits into the overall governance structure of the authority. If the combined authority brings together the functions of the PCC with the local authority functions, and in time those of the fire authority as well, then it might be expected that there would be a single audit committee.

Police

Police audit committees are recommended by the FMCP to be joint committees, reporting both to the PCC and the chief constable. To date, all police audit committees operate in this way.

SHARED AUDIT COMMITTEES

Where authorities or policing bodies have entered into significant levels of partnership, a shared audit committee may be a practical way forward. This will be particularly appropriate where there is a shared management team and single functions for finance, audit and risk. In establishing the committee, consideration will need to be given to achieving a balance of representation between the partners and how the chair is to be selected.

AUDIT COMMITTEES IN PARTNERSHIP

Where an authority has major areas of governance and risk shared with other public bodies in a partnership, it may be appropriate to set up formal arrangements between the respective audit committees. This could involve one audit committee being nominated to take the lead on matters relating to the partnership. Alternatively, the audit committees could nominate representatives to a shared audit committee to oversee the partnership.

DECISION-MAKING POWERS AND DELEGATIONS

All audit committees are non-executive bodies whose role is to make recommendations rather than to decide policies directly. The impact of the committee is through influence and persuasion rather than direct decision making. The committee's effectiveness does not depend on the delegation of powers.

The constitution of a local authority may include direct delegations to its audit committee, for example to approve the AGS or financial statement on behalf of the authority, as well as undertaking the review. In establishing whether the audit committee is to have any delegated

decision-making powers, the local authority should take into account the number and role of independent members on the committee. In doing this, it will need to take into account the issue of voting rights outlined in Chapter 7. CIPFA recommends that delegation of decision-making powers on matters not directly related to the work of the audit committee should be avoided.

Police audit committees in England and Wales can never be delegated decision-making or approval powers by the PCC or the chief constable.

ADMINISTRATIVE AND OPERATIONAL ARRANGEMENTS

Agenda management and frequency of meetings

The frequency and timing of meetings is a matter for each authority to determine, based on its corporate governance arrangements, together with consideration of how the committee can operate effectively and fulfil its purpose. To fit with planning, monitoring and annual reporting arrangements, most organisations will find they will require at least four meetings a year. Aspects of the audit committee agenda will be determined by statutory requirements related to the accounts and matters related to the financial year. Outside these agenda items, the audit committee should aim to manage its agenda according to its assurance needs to fulfil its terms of reference.

Where an audit committee is addressing the full range of governance, risk, control and audit functions, care should be taken to balance the frequency of meetings against the need to give the business of the committee sufficient focused attention without lengthy and unproductive meetings. Equally, the audit committee should review whether the inclusion of each item on its agenda results in added value and whether some time-consuming aspects of audit committee business could be more effectively addressed elsewhere. In making these judgements, the audit committee should operate at a resolutely strategic level. Care should be taken to avoid straying into matters of operational detail that should be resolved by service managers. The skilful chairing of meetings with well-planned agendas should provide the final mechanism for avoiding this danger.

Supporting the audit committee and key relationships

Effective administrative support for the audit committee will clearly be important as for any committee of the authority. If the committee is to take an active part in the authority's business, it should be administered as effectively as any other committee meeting. The regular attendance of key senior management figures is important – both to maintain the credibility of the committee and to ensure that members are adequately supported by appropriate professionals.

[The Role of the Chief Financial Officer in Local Government](#) (CIPFA, 2016) and the [CIPFA Statement on the Role of Chief Financial Officers in Policing](#) (2018) emphasise the importance of having an effective audit committee to support the CFO. Police audit committees will need to work with the CFO of both the PCC and the chief constable. The CFO in a local authority must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

The CFO should therefore be a key point of contact for audit committee members and it is essential that the CFO has direct access to the committee. It is also a responsibility of the CFO to support the authority's internal audit arrangements and ensure that the audit committee receives any necessary advice and information, so that both functions can operate effectively. The audit committee should then be in a position to provide effective support to the CFO.

The head of internal audit should also have a good relationship with the committee and be a key point of contact. Internal audit reports or updates will be a regular feature of audit committee agendas, so the head of internal audit should be expected to attend all meetings.

A public sector requirement within the PSIAS states:

The chief audit executive must also establish effective communication with, and have free and unfettered access to, the chief executive (or equivalent) and the chair of the audit committee.

The head of internal audit's relationship with the audit committee, especially the chair, is crucial. They should be mutually supportive in their aim to be objective and to provide challenge and support across the organisation and improve governance, risk management and internal control. The head of internal audit must work closely with the audit committee chair so that they are clear about their respective roles and make best use of the available resources.

To be effective, an audit committee will need to engage with a wider range of officers than representatives of finance and internal audit, essential though they are. While it is for each audit committee to determine who attends its meetings, the following examples demonstrate the wide range of officers who can attend and add value to audit committee meetings:

- chief executive or equivalent – for the AGS and other governance-related issues
- monitoring officer – for the AGS and ethical governance issues
- risk management officer – for discussions around the risk registers and risk reports
- head of counter fraud – for agenda items on fraud risks and counter fraud activity
- service senior managers – for audit, risk, or governance discussions on their service areas (while recognising the operational independence of the chief constable on operational policing matters)
- scrutiny, ethics or standards committee representatives – it may be helpful to invite representatives along to explain their work programme or recent reports.

Consideration should also be given to supporting the audit committee outside formal meetings. There may be a need to keep committee members briefed on issues that are on the agenda, and other matters may be too detailed for inclusion on the agenda. For example, internal audit reports may be provided in full to committee members but may be included on the meeting agenda only where there are significant risks to be discussed. This issue may be of particular importance for police audit committees where the members are not routinely involved in other meetings and do not have the same rights of access to information as do local authority councillors. Arrangements to provide the members with an appropriate level of information and updates and a protocol for managing information requests should be discussed and agreed.

Private meetings with external auditors and with internal auditors are a common feature of audit committees in the private sector and in parts of the public sector. The aim of this

is to ensure that there are opportunities to raise any concerns. In local authorities this has proved difficult to replicate because of the requirements for committee meetings to be held in public. Some authorities have approached this by specifying that such meetings are informal. Authorities should aim to provide full opportunities for auditors, external and internal, to have access to the chair of the audit committee.

ACCOUNTABILITY

Given its role in the governance structure and in promoting the principles of good governance, the audit committee should be clear how it supports one of the key principles: accountability. It is also important that the audit committee is, in its turn, held to account on the extent to which it has fulfilled its purpose. For an audit committee, accountability has to be considered under three aspects, each of which is considered below:

1. supporting the authority's accountability to the public and stakeholders
2. supporting accountability within the authority
3. holding the audit committee to account.

Supporting the authority's accountability to the public and stakeholders

The committee has a key role in reviewing the public reports of the authority and in helping the authority to discharge its responsibilities in this area. Committee meetings will normally be held in public, with the exception of exempt items, so this also contributes to the accountability of the authority to the public and stakeholders.

The Home Office publishes an [Accountability System Statement for Policing and Crime Reduction](#) which identifies the formal accountability relationships of policing bodies. The statement does not identify a formal accountability role for the police audit committee, which reflects its role as an advisory body supporting the PCC and chief constable. For police audit committees, therefore, the committee provides support for accountability to the public and other stakeholders but does not directly discharge that responsibility itself.

A wider group of stakeholders, such as partner organisations or the police and crime panel, may have an interest in the work of the committee, although there is no direct accountability relationship between the panel and the audit committee. Holding open meetings and publishing agendas and minutes will support wider communication and transparency.

Supporting accountability within the authority

Through review of internal and external audit reports, monitoring of risk registers and other key strategies, the audit committee will hold to account those responsible for the implementation of recommendations and action plans. In addition, by overseeing the process of evaluating and improving governance, risk management and control, the audit committee helps those responsible for governance to ensure that accountability throughout the authority is working well.

The audit committee is most effective in supporting internal accountability when it discusses governance, risk or control issues with the responsible managers directly. In the most recent

CIPFA survey, this was an area that heads of internal audit identified for improvement in their audit committees.

Holding the audit committee to account

The audit committee should be held to account on a regular basis by the group to which it is accountable. For a local authority audit committee, this will be the council. For a police audit committee, it will be both the PCC and the chief constable. The aspects that should be specifically considered include:

- whether the committee has fulfilled its agreed terms of reference
- whether the committee has adopted recommended practice
- whether the development needs of committee members have been assessed and whether committee members are accessing briefing and training opportunities
- whether the committee has assessed its own effectiveness or been the subject of a review and the conclusions and actions from that review
- what impact the committee has on the improvement of governance, risk and control within the authority.

The preparation of an annual report by the committee can be a helpful way to address the key areas where the committee should be held to account. The annual report should be presented to those charged with governance: council or PCC and chief constable as appropriate. In addition, publication of the report will assist other stakeholders to understand the work of the committee.

It can be difficult to ensure that those not directly involved in the work of the committee achieve an understanding of its role. Where there is a lack of understanding about the work of the committee, then the process of holding the committee to account may not operate effectively. This is considered further in Chapter 7.

Membership and effectiveness

Extract from the Position Statement

- 6** Good audit committees are characterised by:
- a membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. The political balance of a formal committee of an authority will reflect the political balance of the council, however, it is important to achieve the right mix of apolitical expertise
 - a membership that is supportive of good governance principles and their practical application towards the achievement of organisational objectives
 - a strong independently minded chair – displaying a depth of knowledge, skills and interest. There are many personal qualities needed to be an effective chair, but key to these are:
 - promoting apolitical open discussion
 - managing meetings to cover all business and encouraging a candid approach from all participants
 - an interest in and knowledge of financial and risk management, audit, accounting concepts and standards, and the regulatory regime
 - unbiased attitudes – treating auditors, the executive and management fairly
 - the ability to challenge the executive and senior managers when required.

COMPOSITION AND OPERATION OF THE COMMITTEE

The composition of the committee will be a key factor in achieving the characteristics of a good audit committee.

Audit committees in Welsh local authorities and combined authorities in England and in police audit committees in England and Wales are subject to specific rules on the composition of the audit committee as follows:

- The composition of the audit committee for Welsh local authorities is subject to the [Local Government \(Wales\) Measure 2011](#), which requires local authority audit committees to have at least one lay member. Up to one-third of the committee membership may be lay members. Only one of the committee's members may be from the council's executive and this must not be the leader or the elected mayor.
- Police audit committees should comprise between three and five members who are independent of the PCC and the force as required by the [Financial Management Code of Practice for the Police Forces of England and Wales](#) (Home Office, 2013 – due to be updated in 2018).

- Combined authorities in England are required to establish an audit committee by the [Cities and Local Government Devolution Act 2016](#). The Act and the subsequent [Combined Authorities \(Overview and Scrutiny Committees, Access to Information and Audit Committees\) Order 2017](#) require combined authority audit committees to include at least one independent member. The definition of independent is set out in the statutory guidance.

In other parts of the local authority sector there are no statutory requirements that determine the composition of the audit committee. In Northern Ireland, the Chief Local Government Auditor has recommended that suitable independent members are appointed to all local authority audit committees. In the most recent [report](#), ten out of eleven local authority committees had appointed at least one independent member to the committee.

CIPFA endorses the approach of mandating the inclusion of a lay or independent member and recommends that those authorities, for whom it is not a requirement, actively explore the appointment of an independent member to the committee.

In other sectors, the audit committee can be small – fewer than six members. [Guidance on Audit Committees](#) (FRC, 2016) says that an audit committee should have at least three non-executive directors. The [Audit and Risk Assurance Committee Handbook](#) (HM Treasury, 2016) states that a committee should have at least three members of which there should be two non-executive board members, one of whom will chair the committee; executive members are explicitly excluded.

In the local authority sector where membership of the committee is drawn from elected representatives, the depth of knowledge and experience that is desirable may be harder to achieve with a small number, however, there is a risk that creating a large committee will mean that it is harder to create the necessary focus. There is no consistency in the local government sector on the size of the committee. [CIPFA's 2016 survey](#) of audit committees found that size of the committee ranged from five to fifteen or more, although 47% had between six and eight members, with 2% having fewer and 50% having more. The survey showed that the average size of the committee had increased since CIPFA's 2011 survey.

Elected members of local authorities are members of the council and thus are part of the body charged with governance. Elected members bring knowledge of the organisation, its objectives and policies to the audit committee. Members who are also involved in scrutiny or standards offer additional knowledge of activity, risks and challenges affecting those areas.

Having executive members on the committee is discouraged as it could deter the committee from being able to challenge or hold to account the executive on governance, risk and control matters. This approach is consistent with audit committee practice in other parts of the public sector and in the private sector. Inviting an executive member onto the committee should be avoided unless the committee has other compensating arrangements to ensure independence, for example, a majority of independent members or an independent chair. The executive member should not chair the committee. The leader of the cabinet, administration or the elected mayor should not be a member of the audit committee. However, the audit committee can invite members of the executive to attend to discuss issues within its remit and to brief the committee on the actions they are taking.

Any audit committee that is a properly constituted committee of the council will need to abide by the rules concerning political balance, as outlined in Section 15 of the [Local Government and Housing Act 1989](#). Under the statutory guidance, combined authorities are required to reflect the political balance of the constituent authorities as far as is practicable. One factor that is important for the success of the committee is ensuring a non-political approach to meetings and discussions. When establishing a joint audit committee, the political balance of both authorities will need to be considered.

Good practice shows that co-option of independent members is beneficial to the audit committee. It is a requirement for police audit committees, English combined authorities and for local authorities in Wales, and it is usual practice for non-executives to be committee members in health and central government audit committees. The injection of an external view can often bring a new approach to committee discussions. Authorities that have chosen to recruit independent members have done so for a number of reasons:

- to bring additional knowledge and expertise to the committee
- to reinforce the political neutrality and independence of the committee
- to maintain continuity of committee membership where membership is affected by the electoral cycle.

There are some potential pitfalls to the use of independent members which should also be borne in mind:

- over-reliance on the independent members by other committee members can lead to a lack of engagement across the full committee
- lack of organisational knowledge or ‘context’ among the independent members when considering risk registers or audit reports
- effort is required from both independent members and officers/staff to establish an effective working relationship and establish appropriate protocols for briefings and access to information.

These factors should be taken into account when developing the committee structure and plans put in place to provide an appropriate level of support to the audit committee member.

Voting rights of independent members

Local authorities should have regard to Section 13 of the [Local Government and Housing Act 1989](#) which relates to the voting rights of non-elected committee members. Where the audit committee is operating as an advisory committee under the [Local Government Act 1972](#), making recommendations rather than policy, then all members of the committee should be able to vote on that recommendation. If the council wishes to delegate decisions to the committee, for example the adoption of the financial statements, then the independent member will not be able to vote on those matters for decision. The minutes of the meeting should make clear in what capacity the committee is voting.

Recruitment process

The job description of the independent member should be drawn up and agreed before commencing recruitment. The requirements of relevant knowledge or expertise should be

clearly determined. Vacancies should be publicly advertised, as is good practice for any public appointment. Candidates should be able to demonstrate their political independence and their suitability should be checked. Only the independent members for combined authorities have to satisfy specific definitions of their independence. Appropriate enquiries will need to be made as part of the recruitment process to ensure that any applicants satisfy the requirements, and continuation of compliance should be monitored during the term of appointment.

Independent members' appointments should be for a fixed term and be formally approved by the local authority's council or the PCC and the chief constable. Provision should be made for early termination and extension to avoid lack of clarity in the future. While operating as a member of the audit committee, the independent member should follow the same code of conduct as elected members and a register of interests should be maintained.

The primary considerations when considering audit committee membership should be maximising the committee's knowledge base and skills, being able to demonstrate objectivity and independence, and having a membership that will work together.

KNOWLEDGE AND EXPERIENCE

There is a range of knowledge and experience that audit committee members can bring to the committee and which will enable it to perform effectively. No one committee member would be expected to be expert in all areas, but there are some core areas of knowledge that committee members will need to acquire. There will also be a need for regular briefings or training to help committee members keep up to date or extend their knowledge.

Appendix C sets out a knowledge and skills framework for audit committee members and the committee chair. This can be used to guide members on their training needs and to evaluate the overall knowledge and skills of the committee. It can also be used when recruiting independent members. A distinction is made between core areas of knowledge that all audit committee members should seek to acquire and a range of specialisms that can add value to the committee.

The audit committee should review risks, controls and assurances that cover the whole operation of the authority so knowledge of specific service areas will be helpful. Other areas of specialist knowledge and experience, for example in accountancy, audit, governance and risk management, will add value to the committee.

Skills and competencies

A number of skills are beneficial for the audit committee member to have. There are also specific skills that the audit committee chair will need. Many of these skills are not unique to the role of audit committee member and experience in other member or non-executive roles will have helped to build these skills. Many authorities have training and development plans for elected members, which may include similar skill or competency training opportunities. Evidence of appropriate skills and knowledge should also be sought where independent members are being recruited to the committee.

Self-assessment and training

Audit committee members should be willing to review their knowledge and skills, for example, as part of a self-assessment process or training needs analysis. Regardless of the knowledge and skills a member has when joining the committee, there needs to be a commitment to participate in training and development to ensure that knowledge is kept up to date. The authority should establish a programme of support that involves induction training, regular briefings and updates as well as formal training programmes. This may require the allocation of a budget to provide appropriate support.

Role of the chair

Police audit committees and some authority audit committees may advertise specifically for an independent chair. Following appointment, it would be expected that the person would remain as chair for their appointed period. Where the chair is an elected councilor, the appointment is likely to be made during the annual council and may only be for that committee cycle. Whether undertaken during recruitment or the annual committee cycle, ideally the selection of the chair will take into account the characteristics required of an effective chair. These include:

- an ability to plan the work of the committee over the year and beyond
- skills of managing meetings
- an ability to bring an objective, apolitical attitude
- a core knowledge and skills required of audit committee members
- a clear focus on the role of the committee and ambition to lead the committee in line with good governance principles
- a focus on improvement and securing agreement on actions.

The tenure of the audit committee chair remains a matter for the authority. In making this decision, it should be recognised that a period of continuity can be helpful, particularly for the development of greater knowledge and expertise, while rotation also helps to deliver a new perspective.

DEVELOPING AUDIT COMMITTEE EFFECTIVENESS

An audit committee's effectiveness should be judged by the contribution it makes to, and the beneficial impact it has on, the authority's business. Since it is primarily an advisory body, it can be more difficult to identify how the audit committee has made a difference. Evidence of effectiveness will usually be characterised as 'influence', 'persuasion' and 'support'. A good standard of performance against recommended practice, together with a knowledgeable and experienced membership, are essential requirements for delivering effectiveness.

Using the recommended practice in this publication should help the authority to achieve a good standard of performance. The evaluation at Appendix D will support an assessment against recommended practice to inform and support the audit committee. Authorities are encouraged not to regard meeting recommended practice as a tick-box activity, and they should recognise that achieving recommended practice does not mean necessarily that the committee is effective.

The selection of audit committee members, their knowledge, skills and experience are an essential component of an effective committee. Regular briefings and training are essential to keep members up to date in their role. Members will become more effective with experience so it is helpful to have some continuity of membership on the committee.

The approach and priorities of the audit committee will need to adapt to the risks and challenges facing the authority and reflect the maturity of its governance, risk and control arrangements. For example, in a new authority or one that has gone through significant structural change, there may be little continuity of governance and control arrangements. As a result, the audit committee will focus on the establishment of appropriate arrangements.

Where an authority has been found to have significant weaknesses in its governance or control arrangements, perhaps identified through an inspection or audit, then the audit committee will support the implementation of recommendations or action plans. Where there are barriers to that improvement, the committee may need to adopt a more questioning or challenging role to help break down those barriers. In those authorities where governance, risk and control are satisfactory overall, the audit committee may give greater focus to new risks and developments, but will also want to seek assurance that satisfactory performance does not lead to complacency and lack of innovation.

COMMON AREAS OF DIFFICULTY FOR AUDIT COMMITTEES

It is not uncommon for audit committees to face difficulties or barriers to fulfilling their potential effectiveness. CIPFA's survey of audit committees in 2016 identified the principal barriers faced by both local authority and police audit committees. For local authorities, the top three were:

1. limited knowledge and experience of the members
2. the committee not being seen as a priority by other members
3. the intrusion of political interests.

For police audit committees, the top three barriers were:

1. the committee was not considered a priority by the PCC and chief constable
2. the committee was not considered a priority by senior management
3. poor relationships between committee members and staff.

The barriers reflect the different make-up of local authority and police committees.

Some of these may be common issues that audit committees in any sector may face; others may be unique to the local authority or police setting. The following assessment may be of value in helping audit committee members or those supporting the committee to recognise and address the challenges.

Areas of difficulty	Possible causes	Possible improvement options
Lack of experience and continuity of knowledge among audit committee members	<ul style="list-style-type: none"> ■ Where turnover of membership is very frequent, it will be difficult for the committee to build up experience 	<ul style="list-style-type: none"> ■ Enhanced level of support and training to members will be required ■ To enhance continuity the authority could consider recruitment of independent members
Audit committee members do not feel confident in their knowledge of particular areas	<ul style="list-style-type: none"> ■ Lack of training and support 	<ul style="list-style-type: none"> ■ Enhanced level of support and training to members
Independent members lack knowledge of the organisation and lack connections with key managers	<ul style="list-style-type: none"> ■ Poor induction ■ Limited opportunities to engage with the organisation outside formal meetings 	<ul style="list-style-type: none"> ■ Improve induction ■ Identify appropriate meetings, briefings or other opportunities that independent members could attend to help develop better understanding
Poor management of audit committee meetings means that work is unfocused or fails to reach a clear conclusion	<ul style="list-style-type: none"> ■ Lack of experience or skill in managing meetings by the chair ■ Committee members are unsure about their role ■ Poor support from the committee secretary 	<ul style="list-style-type: none"> ■ Training and support ■ Develop a mentoring/ coaching programme ■ Chair seeks feedback from meeting participants ■ Consider skills and experience in the selection of the chair ■ Provide training and guidance to committee members on their role ■ Improve committee support
The audit committee spends too much time on minor areas rather than strategic or wide-ranging issues	<ul style="list-style-type: none"> ■ Agenda management fails to prioritise key areas ■ The chair does not intervene to keep focus at an appropriate level 	<ul style="list-style-type: none"> ■ Review the process of agenda development ■ Review the terms of reference and provide training ■ The chair seeks feedback from meeting participants ■ Provide the chair with committee management training
The audit committee is little known or understood in many parts of the authority	<ul style="list-style-type: none"> ■ The audit committee fails to engage with many parts of the authority ■ Attendance is often limited to the CFO and the head of 	<ul style="list-style-type: none"> ■ Expand attendance at audit committee meetings. For example, invite heads of service when major risks or control issues are being discussed

Areas of difficulty	Possible causes	Possible improvement options
The audit committee is little known or understood by those not on the committee	<ul style="list-style-type: none"> ■ Lack of feedback or reporting arrangements 	<ul style="list-style-type: none"> ■ Invite newly elected members to attend audit committee meetings ■ Review reporting arrangements ■ Consider an annual report that sets out how the committee has fulfilled its responsibilities
Recommendations made by the audit committee are not actioned	<ul style="list-style-type: none"> ■ Poor relationship between the committee and the executive or senior officers ■ The audit committee's recommendations are not adequately aligned to organisational objectives 	<ul style="list-style-type: none"> ■ A senior officer provides internal facilitation to support improved relationships ■ Improve knowledge and skills among audit committee members ■ Ensure better engagement with appropriate managers or the executive at an earlier stage
The audit committee fails to make recommendations or follow up on issues of concern	<ul style="list-style-type: none"> ■ A weak or inexperienced chair ■ Members are inexperienced or do not fully understand their role ■ Poor briefing arrangements prior to meetings ■ Committee reports fail to adequately identify the action required by the committee 	<ul style="list-style-type: none"> ■ Provide guidance and support ■ Improve briefing to the chair prior to the meeting ■ Ensure reports contain clear recommendations
The audit committee strays beyond its terms of reference, for example undertaking a scrutiny role	<ul style="list-style-type: none"> ■ The terms of reference do not adequately scope the work of the committee ■ Misunderstanding about the role of the committee ■ Inadequate guidance from committee secretary to the chair on its role 	<ul style="list-style-type: none"> ■ Review the terms of reference and provide training and guidance

Areas of difficulty	Possible causes	Possible improvement options
Political points of view interfere with the work of the audit committee	<ul style="list-style-type: none"> ■ Lack of understanding about the role of the committee 	<ul style="list-style-type: none"> ■ Seek feedback from those interacting with the committee or external assessment ■ Provide support for or training for the chair ■ Consider the inclusion or role of independent members
A breakdown in the relationship between committee members and the executive, PCC or chief constable or with senior management	<ul style="list-style-type: none"> ■ Lack of understanding about the role of the committee ■ Differing perceptions on the value of the committee ■ Personality clashes 	<ul style="list-style-type: none"> ■ Review the terms of reference and provide training and guidance ■ A senior officer provides internal facilitation to support improved relationships ■ Seek an external assessment or facilitation ■ Change the chair or membership, if the constitution or opportunity arises

APPROACHES TO IMPROVEMENT AND EVALUATING EFFECTIVENESS

The areas included on audit committee agendas are regularly impacted by new legislation, professional guidance and research, so even knowledgeable and experienced audit committee members need access to briefings or training to remain effective. Where areas for development have been identified in the operation of the committee, then a more comprehensive action plan may be required.

Seeking feedback on the operation of the committee may be helpful to supplement a self-assessment. Those interacting regularly with the committee or relying on its output would be the principal sources of feedback. Where the committee is struggling, an external assessment may be an appropriate way to evaluate the committee and to develop an action plan for improvement.

Appendix E contains an assessment tool to help audit committee members to consider where it is most effective and where there may be scope to do more. To be considered effective, the audit committee should be able to identify evidence of its impact or influence linked to specific improvements.

APPENDIX A

Sector and devolved government guidance

PART 1 – COMPARISON OF SECTOR AND DEVOLVED GOVERNMENT REGULATIONS AND GUIDANCE ON KEY AREAS RELATED TO AUDIT COMMITTEES

Guidance area	England Combined authorities	Wales Local authorities	England and Wales Police	England, Northern Ireland and Scotland Local authorities
Establishment of audit committee	<ul style="list-style-type: none"> Required 	<ul style="list-style-type: none"> Required 	<ul style="list-style-type: none"> Required It is recommended that this should be a combined body for both PCC and chief constable 	<ul style="list-style-type: none"> No guidance
Composition of the audit committee	<ul style="list-style-type: none"> Committees must have at least one independent person as defined by guidance The committee should reflect the political balance of the constituent authorities, as far as is reasonably practical The committee may not include an officer of the combined authority or a constituent council 	<ul style="list-style-type: none"> Committees must have at least one lay member. Up to one-third of the committee membership may be lay members. Only one of the committee's members may be from the council's executive and this must not be the leader or the elected mayor 	<ul style="list-style-type: none"> Police audit committees should comprise between three and five members who are independent of the PCC and the force (where applicable) 	<ul style="list-style-type: none"> No guidance

Guidance area	England Combined authorities	Wales Local authorities	England and Wales Police	England, Northern Ireland and Scotland Local authorities
Specified functions of the audit committee	<p>a) Review and scrutinise the authority's financial affairs</p> <p>b) Review and assess the authority's risk management, internal control and corporate governance arrangements</p> <p>c) Review and assess the economy, efficiency and effectiveness with which resources have been used in discharging the authority's functions</p> <p>d) Make reports and recommendations to the combined authority</p>	<p>a) Review and scrutinise the authority's financial affairs</p> <p>b) Make reports and recommendations in relation to the authority's financial affairs</p> <p>c) Review and assess the risk management, internal control and corporate governance arrangements of the authority</p> <p>d) Make reports and recommendations to the authority on the adequacy and effectiveness of those arrangements</p> <p>e) Oversee the authority's internal and external audit arrangements</p> <p>f) Review the financial statements prepared by the authority</p>	<p>Consider the internal and external audit reports of both the PCC and the chief constable</p> <p>Advise the PCC and the chief constable according to good governance principles and adopt appropriate risk management arrangements in accordance with proper practices</p>	No guidance
Responsibilities of the audit committee in relation to external audit	<p>■ No guidance</p>	<p>■ Oversee external audit arrangements</p>	<p>■ Review external audit reports</p>	No guidance

Guidance area	England Combined authorities	Wales Local authorities	England and Wales Police	England, Northern Ireland and Scotland Local authorities
Specific guidance	<ul style="list-style-type: none"> ■ Cities and Local Government Devolution Act 2016 ■ Combined Authorities (Overview and Scrutiny Committees, Access to Information and Audit Committees) Order 2016 	<ul style="list-style-type: none"> ■ Local Government (Wales) Measure 2011 Statutory Guidance from the Local Government Measure 2011 	Financial Management Code of Practice for the Police Forces of England and Wales (Home Office, 2013 – due to be updated in 2018)	N/A

PART 2 – GOVERNMENT GUIDANCE BY SECTOR AND DEVOLVED GOVERNMENT ON MATTERS THAT MAY BE INCLUDED IN AUDIT COMMITTEE TERMS OF REFERENCE

Accounts and Audit Regulations are statutory instruments issued by the UK or the devolved governments. The various regulations impose requirements on ‘relevant bodies’, eg a local authority, a fire and rescue authority or police body, in relation to governance, internal control, financial reporting and internal audit.

The Accounts and Audit Regulations do not specify that these requirements must be met by an audit committee. However, where it is the audit committee of a relevant body that undertakes or reviews the specified task, the audit committee must meet the requirements of the regulations and take them into account in agreeing their terms of reference.

The following is a summary for each sector and/or region of the sets of regulations affecting them, highlighting key regulations. The regulations are subject to periodic update by the appropriate government body and audit committee members should be made aware of any changes by their organisation.

Local authorities in England (including combined authorities and fire and rescue authorities)

Relevant government guidance	Accounts and Audit (England) Regulations 2015
Governance and risk management arrangements	Regulation 3 requires that: <i>A relevant authority must ensure that it has a sound system of internal control which –</i> <i>(a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;</i> <i>(b) ensures that the financial and operational management of the authority is effective; and</i> <i>(c) includes effective arrangements for the management of risk</i>
Authority’s financial affairs and financial statements	Regulation 4 relates to accounting records and control systems Regulations 7, 8, 9 and 10 relate to the statement of accounts
Review of effectiveness of system of internal control	Regulation 6 requires members of the body to consider the findings of the review of the effectiveness of the body’s system of internal control
Approval of annual governance statements	Regulation 6 relates to the approval of an AGS prepared in accordance with proper practices in relation to accounts
Internal audit	Regulation 5 requires a relevant body to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance

Local authorities in Wales

Relevant government guidance	Accounts and Audit Regulations (Wales) 2014 and the Accounts and Audit (Wales) (Amendment) Regulations 2018
Governance and risk management arrangements	Regulation 5 requires the following: <i>5.—(1) The relevant body must ensure that there is a sound system of internal control which facilitates the effective exercise of that body's functions and which includes—</i> <i>a) arrangements for the management of risk, and</i> <i>b) adequate and effective financial management</i>
Financial affairs and financial statements	Regulation 6 relates to accounting records and control systems Regulations 8 and 10 relate to the statement of accounts
Review of effectiveness of system of internal control	Regulation 5 requires the body to conduct a review at least once in a year of the effectiveness of its system of internal control and consider the findings of the review
Approval of annual governance statements	Regulation 5 requires the body to approve a statement on internal control prepared in accordance with proper practices
Internal audit	Regulation 7 requires a local government body to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control
Review of effectiveness of internal audit	Regulation 7 requires that a larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit In addition, the Local Government Measure (Wales) 2011 has an explicit requirement for the audit committee to oversee the authority's internal audit arrangements

Local authorities in Scotland

Relevant government guidance	Local Authority Accounts (Scotland) Regulations 2014
Governance and risk management arrangements	Regulation 5 requires the following: <i>A local authority is responsible for ensuring that the authority has a sound system of internal control which –</i> <i>(a) facilitates the effective exercise of the authority's functions; and</i> <i>(b) includes arrangements for the management of risk</i>
Financial affairs and financial statements	Regulation 5 requires the following: <i>A local authority is responsible for ensuring that the financial management of the authority is adequate and effective</i> Regulation 6 relates to accounting records and control systems Regulations 8, 10 and 11 relate to the statement of accounts
Review of effectiveness of system of internal control	Regulation 5 requires the authority to: <i>conduct a review at least once in each financial year of the effectiveness of its system of internal control.</i>

Approval of annual governance statements	Regulation 5 relates to the approval of an AGS prepared in accordance with proper practices in relation to internal control
Internal audit	Regulation 7 requires a local authority to operate a professional and objective internal auditing service in accordance with recognised standards and practices in relation to internal auditing
Review of effectiveness of internal audit	Regulation 7 requires a local authority to assess the efficiency and effectiveness of its internal auditing in accordance with the recognised standards and practices

Local authorities in Northern Ireland

Relevant government guidance	Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015
Governance and risk management arrangements	Regulation 4 requires a local government body to ensure that the financial management of the local government body is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk
Authority's financial affairs and financial statements	Regulation 5 relates to accounting records and control systems Regulations 7 and 8 relate to the statement of accounts
Review of effectiveness of system of internal control	Regulation 4 requires a review of the effectiveness of the body's system of internal control and to approve a statement on internal control, prepared in accordance with proper practices in relation to internal control
Approval of annual governance statements	Regulation 4 requires the body to approve a statement on internal control, prepared in accordance with proper practices in relation to internal control The accompanying guidance from the Department of the Environment identifies the CIPFA/Solace 2007 Framework and 2012 Addendum as proper practices – these have now been replaced by the 2016 Framework
Internal audit	Regulation 6 requires the local government body to undertake an adequate and effective internal audit of its accounting records and of its system of risk management, internal control and governance processes using internal auditing standards in force from time to time The accompanying guidance from the Department of the Environment identifies the PSIAS as the appropriate internal audit standard

Police in England

Relevant government guidance	Accounts and Audit (England) Regulations 2015 – see also the statutory guidance Financial Management Code of Practice for the Police Forces of England and Wales (FMCP) (Home Office, 2013 – due to be updated in 2018)
Governance and risk management arrangements	Regulation 3 requires the following: <i>A relevant authority must ensure that it has a sound system of internal control which –</i> <i>(a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;</i> <i>(b) ensures that the financial and operational management of the authority is effective; and</i> <i>(c) includes effective arrangements for the management of risk.</i>
Authority’s financial affairs and financial statements	Regulation 4 relates to accounting records and control systems Regulations 7, 8, 9 and 10 relate to the statement of accounts
Review of effectiveness of system of internal control	Regulation 6 requires members of the body to consider the findings of the review of the effectiveness of the body’s system of internal control
Approval of annual governance statements	Regulation 6 relates to the approval of an AGS prepared in accordance with proper practices in relation to accounts
Internal audit	Regulation 5 requires a relevant body to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance

Police in Wales

Relevant government guidance	Accounts and Audit Regulations (Wales) 2014 and the Accounts and Audit (Wales) (Amendment) Regulations 2018 – see also the FMCP
Governance and risk management arrangements	Regulation 5 requires the following: <i>A local authority is responsible for ensuring that the authority has a sound system of internal control which –</i> <i>(a) facilitates the effective exercise of the authority’s functions; and</i> <i>(b) includes arrangements for the management of risk.</i>
Financial affairs and financial statements	Regulation 6 relates to accounting records and control systems Regulations 8 and 10 relate to the statement of accounts
Review of effectiveness of system of internal control	Regulation 5 requires that the body to conduct a review at least once in a year of the effectiveness of its system of internal control and consider the findings of the review
Approval of annual governance statements	Regulation 5 requires the body to approve a statement on internal control prepared in accordance with proper practices

Internal audit	Regulation 7 requires a local government body to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control
Review of effectiveness of internal audit	Regulation 7 requires that a larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit In addition, the Local Government (Wales) Measure 2011 has an explicit requirement for the audit committee to oversee the authority's internal audit arrangements

Suggested terms of reference – local authorities and police

INTRODUCTION

This appendix contains two sets of suggested terms of reference, one for local authorities and one for police. The principal difference between them is that the police audit committee must ensure that its terms of reference are in accordance with the [Financial Management Code of Practice for the Police Forces of England and Wales](#) (Home Office, 2013 – due to be updated in 2018) and remain an advisory body.

In developing the terms of reference for an organisation, care should be taken to ensure that the specific regulations appropriate for the authority are taken into account.

Appendix A sets out these requirements. In addition, where the terms of reference refer to internal audit, regard should be had for how the internal audit charter has allocated responsibilities to the committee. Some of the internal audit responsibilities identified in the terms of reference may not be carried out by the audit committee but by others.

SUGGESTED TERMS OF REFERENCE – LOCAL AUTHORITIES

Governance

The terms of reference should set out the committee's position in the governance structure of the authority.

Statement of purpose

- 1 Our audit committee is a key component of [name of authority]'s corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
- 2 The purpose of our audit committee is to provide independent assurance to the members [or identify others charged with governance in your authority] of the adequacy of the risk management framework and the internal control environment. It provides independent review of [name of authority]'s governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

Governance, risk and control

- 3 To review the council's corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance.
- 4 To review the AGS prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.
- 5 To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- 6 To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.
- 7 To monitor the effective development and operation of risk management in the council.
- 8 To monitor progress in addressing risk-related issues reported to the committee.
- 9 To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- 10 To review the assessment of fraud risks and potential harm to the council from fraud and corruption.
- 11 To monitor the counter-fraud strategy, actions and resources.
- 12 To review the governance and assurance arrangements for significant partnerships or collaborations.

To fulfil the requirements of the Local Authority Measure within their terms of reference, local authorities in Wales should identify those aspects which are specified in the Measure. See Appendix A for details. CIPFA considers that the requirement to review and make recommendations on the authority's financial affairs will be fulfilled by reference to items 5, 9 and 10 in these suggested terms of reference as well as those under financial reporting.

Internal audit

- 13 To approve the internal audit charter.
- 14 To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
- 15 To approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
- 16 To approve significant interim changes to the risk-based internal audit plan and resource requirements.
- 17 To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
- 18 To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the head of internal audit. To approve and periodically review safeguards to limit such impairments.

- 19 To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:
 - a) updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work
 - b) regular reports on the results of the QAIP
 - c) reports on instances where the internal audit function does not conform to the PSIAS and LGAN, considering whether the non-conformance is significant enough that it must be included in the AGS.
- 20 To consider the head of internal audit's annual report:
 - a) The statement of the level of conformance with the PSIAS and LGAN and the results of the QAIP that support the statement – these will indicate the reliability of the conclusions of internal audit.
 - b) The opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the committee in reviewing the AGS.
- 21 To consider summaries of specific internal audit reports as requested.
- 22 To receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.
- 23 To contribute to the QAIP and in particular, to the external quality assessment of internal audit that takes place at least once every five years.
- 24 To consider a report on the effectiveness of internal audit to support the AGS, where required to do so by the Accounts and Audit Regulations (see Appendix A).
- 25 To provide free and unfettered access to the audit committee chair for the head of internal audit, including the opportunity for a private meeting with the committee.

External audit

- 26 To support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by PSAA or the authority's auditor panel as appropriate.
- 27 To consider the external auditor's annual letter, relevant reports and the report to those charged with governance.
- 28 To consider specific reports as agreed with the external auditor.
- 29 To comment on the scope and depth of external audit work and to ensure it gives value for money.
- 30 To commission work from internal and external audit.
- 31 To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

Financial reporting

- 32 To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.
- 33 To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

Accountability arrangements

- 34 To report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements, and internal and external audit functions.
- 35 To report to full council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.
- 36 To publish an annual report on the work of the committee.

SUGGESTED TERMS OF REFERENCE – POLICE

There is no formal requirement as to how the audit committee relates to the governance structures of the PCC and the chief constable, but it is recommended that this is clearly set out in the terms of reference.

Statement of purpose

- 1 Our [audit] [joint audit] committee is a key component of [name of body]'s corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
- 2 The purpose of our [audit] [joint audit] committee is to provide independent advice and recommendation to [select from 'the police and crime commissioner' (or name), 'the chief constable' (or name)] on the adequacy of the governance and risk management frameworks, the internal control environment, and financial reporting, thereby helping to ensure efficient and effective assurance arrangements are in place. To this end the committee is enabled and required to have oversight of, and to provide independent review of, the effectiveness of [name of body]'s governance, risk management and control frameworks, its financial reporting and annual governance processes, and internal audit and external audit.
- 3 These terms of reference will summarise the core functions of the committee in relation to the office of the police and crime commissioner (OPCC) and to the constabulary and describe the protocols in place to enable it to operate independently, robustly and effectively.

Governance, risk and control

The committee will provide advice and recommendations to the PCC or chief constable in relation to the following areas:

- 4 Review the corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance.
- 5 Review the annual governance statement[s] prior to approval and consider whether [it] [they] properly [reflects] [reflect] the governance, risk and control environment and supporting assurances and identify any actions required for improvement.
- 6 Consider the arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- 7 Consider the framework of assurance and ensure that it adequately addresses the risks and priorities of the OPCC/the constabulary.
- 8 Monitor the effective development and operation of risk management, review the risk profile, and monitor progress of the PCC/the chief constable in addressing risk-related issues reported to them.
- 9 Consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- 10 Review arrangements for the assessment of fraud risks and potential harm from fraud and corruption and monitor the effectiveness of the counter fraud strategy, actions and resources.
- 11 To review the governance and assurance arrangements for significant partnerships or collaborations.

Internal audit

The committee will provide advice and recommendations to the PCC or chief constable in relation to the following areas:

- 12 Annually review the internal audit charter and resources.
- 13 Review the internal audit plan and any proposed revisions to the internal audit plan.
- 14 Oversee the appointment and consider the adequacy of the performance of the internal audit service and its independence.
- 15 Consider the head of internal audit's annual report and opinion, and a regular summary of the progress of internal audit activity against the audit plan, and the level of assurance it can give over corporate governance arrangements.
- 16 To consider the head of internal audit's statement of the level of conformance with the PSIAS and LGAN and the results of the QAIP that support the statement – these will indicate the reliability of the conclusions of internal audit.
- 17 Consider summaries of internal audit reports and such detailed reports as the committee may request from the PCC/the chief constable, including issues raised or recommendations made by the internal audit service, management response and progress with agreed actions.
- 18 Consider a report on the effectiveness of internal audit to support the AGS, where required to do so by the [Accounts and Audit Regulations \(Wales\) 2014](#) (see Appendix A).

- 19 To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the head of internal audit. To make recommendations on safeguards to limit such impairments and periodically review their operation.

External audit

The committee will provide advice and recommendations to the PCC or chief constable in relation to the following areas:

- 20 Support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by either PSAA or the auditor panel as appropriate.
- 21 Comment on the scope and depth of external audit work, its independence and whether it gives satisfactory value for money.
- 22 Consider the external auditor's annual management letter, relevant reports and the report to those charged with governance.
- 23 Consider specific reports as agreed with the external auditor.
- 24 Advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

Financial reporting

The committee will provide advice and recommendations to the PCC or chief constable in relation to the following areas:

- 25 Review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit of the financial statements that need to be brought to the attention of the PCC and/or the chief constable.
- 26 Consider the external auditor's report to those charged with governance on issues arising from the audit of the financial statements.

Accountability arrangements

The committee will do the following:

- 27 On a timely basis report to the PCC and the chief constable with its advice and recommendations in relation to any matters that it considers relevant to governance, risk management and financial management.
- 28 Report to the PCC and the chief constable on its findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements, and internal and external audit functions.
- 29 Review its performance against its terms of reference and objectives on an annual basis and report the results of this review to the PCC and the chief constable.
- 30 Publish an annual report on the work of the committee.

Audit committee members – knowledge and skills framework

CORE AREAS OF KNOWLEDGE

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
Organisational knowledge	<ul style="list-style-type: none"> ■ An overview of the governance structures of the authority and decision-making processes ■ Knowledge of the organisational objectives and major functions of the authority 	<ul style="list-style-type: none"> ■ This knowledge will be core to most activities of the audit committee including review of the AGS, internal and external audit reports and risk registers
Audit committee role and functions (Chapters 3 and 6)	<ul style="list-style-type: none"> ■ An understanding of the audit committee's role and place within the governance structures. Familiarity with the committee's terms of reference and accountability arrangements ■ Knowledge of the purpose and role of the audit committee 	<ul style="list-style-type: none"> ■ This knowledge will enable the audit committee to prioritise its work in order to ensure it discharges its responsibilities under its terms of reference and to avoid overlapping the work of others
Governance (Chapter 4)	<ul style="list-style-type: none"> ■ Knowledge of the seven principles of the CIPFA/Solace Framework and the requirements of the AGS ■ Knowledge of the local code of governance 	<ul style="list-style-type: none"> ■ The committee will review the local code of governance and consider how governance arrangements align to the principles in the framework ■ The committee will plan the assurances it is to receive in order to adequately support the AGS ■ The committee will review the AGS and consider how the authority is meeting the principles of good governance

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
Internal audit (Chapter 4)	<ul style="list-style-type: none"> ■ An awareness of the key principles of the PSIAS and the LGAN ■ Knowledge of the arrangements for delivery of the internal audit service in the authority and how the role of the head of internal audit is fulfilled 	<ul style="list-style-type: none"> ■ The audit committee has oversight of the internal audit function and will monitor its adherence to professional internal audit standards ■ The audit committee will review the assurances from internal audit work and will review the risk-based audit plan. The committee will also receive the annual report, including an opinion and information on conformance with professional standards ■ In relying on the work of internal audit, the committee will need to be confident that professional standards are being followed ■ The audit committee chair is likely to be interviewed as part of the external quality assessment and the committee will receive the outcome of the assessment and action plan
Financial management and accounting (Chapter 4)	<ul style="list-style-type: none"> ■ Awareness of the financial statements that a local authority must produce and the principles it must follow to produce them ■ Understanding of good financial management principles ■ Knowledge of how the organisation meets the requirements of the role of the CFO, as required by The Role of the Chief Financial Officer in Local Government (CIPFA, 2016) and the CIPFA Statement on the Role of Chief Financial Officers in Policing (2018) 	<ul style="list-style-type: none"> ■ Reviewing the financial statements prior to publication, asking questions ■ Receiving the external audit report and opinion on the financial audit ■ Reviewing both external and internal audit recommendations relating to financial management and controls ■ The audit committee should consider the role of the CFO and how this is met when reviewing the AGS
External audit (Chapter 4)	<ul style="list-style-type: none"> ■ Knowledge of the role and functions of the external auditor and who currently undertakes this role ■ Knowledge of the key reports and assurances that external audit will provide ■ Knowledge about arrangements for the appointment of auditors and quality monitoring undertaken 	<ul style="list-style-type: none"> ■ The audit committee should meet with the external auditor regularly and receive their reports and opinions ■ Monitoring external audit recommendations and maximising benefit from audit process ■ The audit committee should monitor the relationship between the external auditor and the authority and support the delivery of an effective service

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
Risk management (Chapter 4)	<ul style="list-style-type: none"> ■ Understanding of the principles of risk management, including linkage to good governance and decision making ■ Knowledge of the risk management policy and strategy of the organisation ■ Understanding of risk governance arrangements, including the role of members and of the audit committee 	<ul style="list-style-type: none"> ■ In reviewing the AGS, the committee will consider the robustness of the authority’s risk management arrangements and should also have awareness of the major risks the authority faces ■ Keeping up to date with the risk profile is necessary to support the review of a number of audit committee agenda items, including the risk-based internal audit plan, external audit plans and the explanatory foreword of the accounts. Typically, risk registers will be used to inform the committee ■ The committee should also review reports and action plans to develop the application of risk management practice
Counter fraud (Chapter 4)	<ul style="list-style-type: none"> ■ An understanding of the main areas of fraud and corruption risk to which the organisation is exposed ■ Knowledge of the principles of good fraud risk management practice in accordance with the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014) ■ Knowledge of the organisation’s arrangements for tackling fraud 	<ul style="list-style-type: none"> ■ Knowledge of fraud risks and good fraud risk management practice will be helpful when the committee reviews the organisation’s fraud strategy and receives reports on the effectiveness of that strategy ■ An assessment of arrangements should support the AGS and knowledge of good fraud risk management practice will support the audit committee member in reviewing that assessment
Values of good governance (Chapter 5)	<ul style="list-style-type: none"> ■ Knowledge of the Seven Principles of Public Life ■ Knowledge of the authority’s key arrangements to uphold ethical standards for both members and staff ■ Knowledge of the whistleblowing arrangements in the authority 	<ul style="list-style-type: none"> ■ The audit committee member will draw on this knowledge when reviewing governance issues and the AGS ■ Oversight of the effectiveness of whistleblowing will be considered as part of the AGS. The audit committee member should know to whom concerns should be reported

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
<p>Treasury management (only if it is within the terms of reference of the committee to provide scrutiny) (Chapter 5)</p>	<ul style="list-style-type: none"> ■ Effective Scrutiny of Treasury Management is an assessment tool for reviewing the arrangements for undertaking scrutiny of treasury management. The key knowledge areas identified are: <ul style="list-style-type: none"> – regulatory requirements – treasury risks – the organisation’s treasury management strategy – the organisation’s policies and procedures in relation to treasury management ■ See also Treasure Your Assets (CfPS, 2017) 	<ul style="list-style-type: none"> ■ Core knowledge on treasury management is essential for the committee undertaking the role of scrutiny

SPECIALIST KNOWLEDGE THAT ADDS VALUE TO THE AUDIT COMMITTEE

This section may be of particular benefit when recruiting independent members.

Knowledge area	Details of supplementary knowledge	How the audit committee member is able to add value to the committee
Accountancy	<ul style="list-style-type: none"> Professional qualification in accountancy 	<ul style="list-style-type: none"> More able to engage with the review of the accounts and financial management issues coming before the committee Having an understanding of the professional requirements and standards that the finance function must meet will provide helpful context for discussion of risks and resource issues More able to engage with the external auditors and understand the results of audit work
Internal audit	<ul style="list-style-type: none"> Professional qualification in internal audit 	<ul style="list-style-type: none"> This would offer in-depth knowledge of professional standards of internal audit and good practice in internal auditing The committee would be more able to provide oversight of internal audit and review the output of audit reports
Risk management	<ul style="list-style-type: none"> Risk management qualification Practical experience of applying risk management Knowledge of risks and opportunities associated with major areas of activity 	<ul style="list-style-type: none"> Enhanced knowledge of risk management will inform the committee's oversight of the development of risk management practice Enhanced knowledge of risks and opportunities will be helpful when reviewing risk registers
Governance and legal	<ul style="list-style-type: none"> Legal qualification and knowledge of specific areas of interest to the committee, for example constitutional arrangements, data protection or contract law 	<ul style="list-style-type: none"> Legal knowledge may add value when the committee considers areas of legal risk or governance issues
Service knowledge relevant to the functions of the organisation	<ul style="list-style-type: none"> Direct experience of managing or working in a service area similar to that operated by the authority Previous scrutiny committee experience 	<ul style="list-style-type: none"> Knowledge of relevant legislation, risks and challenges associated with major service areas will help the audit committee to understand the operational context

Knowledge area	Details of supplementary knowledge	How the audit committee member is able to add value to the committee
Programme and project management	<ul style="list-style-type: none"> Project management qualifications or practical knowledge of project management principles 	<ul style="list-style-type: none"> Expert knowledge in this area will be helpful when considering project risk management or internal audit reviews
IT systems and IT governance	<ul style="list-style-type: none"> Knowledge gained from management or development work in IT 	<ul style="list-style-type: none"> Knowledge in this area will be helpful when considering IT governance arrangements or audit reviews of risks and controls

CORE SKILLS

Skills	Key elements	How the audit committee member is able to apply the skill
Strategic thinking and understanding of materiality	<ul style="list-style-type: none"> Able to focus on material issues and overall position, rather than being side tracked by detail 	<ul style="list-style-type: none"> When reviewing audit reports, findings will include areas of higher risk or materiality to the organisation, but may also highlight more minor errors or control failures. The audit committee member will need to pitch their review at an appropriate level to avoid spending too much time on detail
Questioning and constructive challenge	<ul style="list-style-type: none"> Able to frame questions that draw out relevant facts and explanations Challenging performance and seeking explanations while avoiding hostility or grandstanding 	<ul style="list-style-type: none"> The audit committee will review reports and recommendations to address weaknesses in internal control. The audit committee member will seek to understand the reasons for weaknesses and ensure a solution is found
Focus on improvement	<ul style="list-style-type: none"> Ensuring there is a clear plan of action and allocation of responsibility 	<ul style="list-style-type: none"> The outcome of the audit committee will be to secure improvements to the governance, risk management or control of the organisation, including clearly defined actions and responsibilities Where errors or control failures have occurred, then the audit committee should seek assurances that appropriate action has been taken
Able to balance practicality against theory	<ul style="list-style-type: none"> Able to understand the practical implications of recommendations to understand how they might work in practice 	<ul style="list-style-type: none"> The audit committee should seek assurances that planned actions are practical and realistic

Skills	Key elements	How the audit committee member is able to apply the skill
Clear communication skills and focus on the needs of users	<ul style="list-style-type: none"> ■ Support the use of plain English in communications, avoiding jargon, acronyms, etc 	<ul style="list-style-type: none"> ■ The audit committee will seek to ensure that external documents such as the AGS and the narrative report in the accounts are well written for a non-expert audience
Objectivity	<ul style="list-style-type: none"> ■ Evaluate information on the basis of evidence presented and avoiding bias or subjectivity 	<ul style="list-style-type: none"> ■ The audit committee will receive assurance reports and review risk registers. There may be differences of opinion about the significance of risk and the appropriate control responses and the committee member will need to weigh up differing views
Meeting management skills	<ul style="list-style-type: none"> ■ Chair the meetings effectively: summarise issues raised, ensure all participants are able to contribute, focus on the outcome and actions from the meeting 	<ul style="list-style-type: none"> ■ These skills are essential for the audit committee chair to help ensure that meetings stay on track and address the items on the agenda. The skills are desirable for all other members

Self-assessment of good practice

This appendix provides a high-level review that incorporates the key principles set out in CIPFA's Position Statement and this publication. Where an audit committee has a high degree of performance against the good practice principles, then it is an indicator that the committee is soundly based and has in place a knowledgeable membership. These are the essential factors in developing an effective audit committee.

A regular self-assessment can be used to support the planning of the audit committee work programme and training plans. It can also inform an annual report.

Good practice questions		Yes	Partly	No
Audit committee purpose and governance				
1	Does the authority have a dedicated audit committee?			
2	Does the audit committee report directly to full council? (applicable to local government only)			
3	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?			
4	Is the role and purpose of the audit committee understood and accepted across the authority?			
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?			
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?			
Functions of the committee				
7	Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?			
	■ good governance			
	■ assurance framework, including partnerships and collaboration arrangements			
	■ internal audit			
	■ external audit			
	■ financial reporting			
	■ risk management			
	■ value for money or best value			

Good practice questions		Yes	Partly	No
	<ul style="list-style-type: none"> ■ counter fraud and corruption 			
	<ul style="list-style-type: none"> ■ supporting the ethical framework 			
8	Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?			
9	Has the audit committee considered the wider areas identified in CIPFA’s Position Statement and whether it would be appropriate for the committee to undertake them?			
10	Where coverage of core areas has been found to be limited, are plans in place to address this?			
11	Has the committee maintained its advisory role by not taking on any decision-making powers that are not in line with its core purpose?			

Membership and support

12	<p>Has an effective audit committee structure and composition of the committee been selected?</p> <p>This should include:</p> <ul style="list-style-type: none"> ■ separation from the executive ■ an appropriate mix of knowledge and skills among the membership ■ a size of committee that is not unwieldy ■ consideration has been given to the inclusion of at least one independent member (where it is not already a mandatory requirement) 			
13	Have independent members appointed to the committee been recruited in an open and transparent way and approved by the full council or the PCC and chief constable as appropriate for the organisation?			
14	Does the chair of the committee have appropriate knowledge and skills?			
15	Are arrangements in place to support the committee with briefings and training?			
16	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?			
17	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the CFO?			
18	Is adequate secretariat and administrative support to the committee provided?			

Good practice questions		Yes	Partly	No
Effectiveness of the committee				
19	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?			
20	Are meetings effective with a good level of discussion and engagement from all the members?			
21	Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?			
22	Does the committee make recommendations for the improvement of governance, risk and control and are these acted on?			
23	Has the committee evaluated whether and how it is adding value to the organisation?			
24	Does the committee have an action plan to improve any areas of weakness?			
25	Does the committee publish an annual report to account for its performance and explain its work?			

Evaluating the effectiveness of the audit committee

Assessment key

5	Clear evidence is available from a number of sources that the committee is actively supporting improvements across all aspects of this area. The improvements made are clearly identifiable.
4	Clear evidence from some sources that the committee is actively and effectively supporting improvement across some aspects of this area.
3	The committee has had mixed experience in supporting improvement in this area. There is some evidence that demonstrates their impact but there are also significant gaps.
2	There is some evidence that the committee has supported improvements, but the impact of this support is limited.
1	No evidence can be found that the audit committee has supported improvements in this area.

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
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Promoting the principles of good governance and their application to decision making	<ul style="list-style-type: none"> ■ Supporting the development of a local code of governance ■ Providing robust review of the AGS and the assurances underpinning it ■ Working with key members/PCC and chief constable to improve their understanding of the AGS and their contribution to it ■ Supporting reviews/audits of governance arrangements ■ Participating in self-assessments of governance arrangements ■ Working with partner audit committees to review governance arrangements in partnerships 		
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Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
Contributing to the development of an effective control environment	<ul style="list-style-type: none"> ■ Actively monitoring the implementation of recommendations from auditors ■ Encouraging ownership of the internal control framework by appropriate managers ■ Raising significant concerns over controls with appropriate senior managers 		
Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks	<ul style="list-style-type: none"> ■ Reviewing risk management arrangements and their effectiveness, eg risk management benchmarking ■ Monitoring improvements ■ Holding risk owners to account for major/strategic risks 		
Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively	<ul style="list-style-type: none"> ■ Specifying its assurance needs, identifying gaps or overlaps in assurance ■ Seeking to streamline assurance gathering and reporting ■ Reviewing the effectiveness of assurance providers, eg internal audit, risk management, external audit 		
Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence	<ul style="list-style-type: none"> ■ Reviewing the audit charter and functional reporting arrangements ■ Assessing the effectiveness of internal audit arrangements, providing constructive challenge and supporting improvements ■ Actively supporting the quality assurance and improvement programme of internal audit 		

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements	<ul style="list-style-type: none"> ■ Reviewing how the governance arrangements support the achievement of sustainable outcomes ■ Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place ■ Reviewing the effectiveness of performance management arrangements 		
Supporting the development of robust arrangements for ensuring value for money	<ul style="list-style-type: none"> ■ Ensuring that assurance on value for money arrangements is included in the assurances received by the audit committee ■ Considering how performance in value for money is evaluated as part of the AGS 		
Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks	<ul style="list-style-type: none"> ■ Reviewing arrangements against the standards set out in the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014) ■ Reviewing fraud risks and the effectiveness of the organisation's strategy to address those risks ■ Assessing the effectiveness of ethical governance arrangements for both staff and governors 		

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
Promoting effective public reporting to the authority’s stakeholders and local community and measures to improve transparency and accountability	<ul style="list-style-type: none"> ■ Improving how the authority discharges its responsibilities for public reporting; for example, better targeting at the audience, plain English ■ Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encourages greater transparency ■ Publishing an annual report from the committee 		

Effectiveness Review - Annual Progress Update

Action plan from the Audit Governance and Standards Committee.

No.	Action	Progress Update	Status
1	Introduce a pre-meeting session immediately prior to the start of the AG&S Committee to take the form of a briefing session and a pre-meeting	Meetings now start at 10.30, with a pre-meet and briefing session at 9.30am Members have received briefings on matters such as Financial Statements and Risk Management.	Complete
2	Review the work programme for the committee and plan when reports are due to be presented to avoid 'heavy' agendas. Consider increasing the frequency of AG&S committees to spread the workload and reduce the size of the agenda packs.	Committee review the work plan at every meeting and additional meetings are added where necessary.	Complete
3	Ask officers to try to reduce the size of the agenda packs if possible – consider receiving executive summary reports instead of more detailed reports	Contributing Officers now work to reduce the length of documents and covering reports contain summaries of the main issues.	Complete
4	Undertake an annual skills and knowledge self-assessment to determine where skills and knowledge need to be enhanced on an annual basis	Due to the impending election it is proposed that this would add more value if carried out after the election to account for the training needs of any new committee members.	In Progress

No.	Action	Progress Update	Status
5	Look to co-opt at least one independent member to the AG&S committee to provide expertise and steer the members to ask the challenging questions	Independent member now appointed.	Complete
6	Produce a standalone annual report on the work of the AG&S committee for full council	The first such report was presented to full council in December 2020.	Complete
7	Increase the AG&S committee's visibility with officers and members by include a presence on the Essex CC intranet.	Page now live on intranet: https://intranet.essex.gov.uk/Pages/Audit_governance_and_standards_committee.aspx	Complete
8	AGS committee are considering requiring Directors or Heads of Service to attend the committee to do a joint presentation for all internal audit reports that have a limited or no assurance opinion. They want to get the service's view on the root cause of the issues identified in the audit, what action they are taking to remedy the situation, and how can the AGS committee help them	This now happens on a regular basis. Committee have received presentations from Tech Services, Finance and ASC in recent meetings.	Complete
9	AGS are considering using working groups (similar to those used at Basildon) to do in-depth look at issues outside of the committee, and report	Committee received a report on this in September 2020 and are moving forward with an issue of interest.	Complete

No.	Action	Progress Update	Status
	back to the committee on what they found		
10	The Committee have visibility of full strategic risk register at least once a year	Committee reviewed the Strategic Risk Register in September alongside a briefing session on the ECC approach to Risk Management This will be repeated annually.	Complete
11	The Committee to undertake an annual review of its effectiveness and to consider how best to do it.	Committee completed a full review of its effectiveness with support and guidance from CIPFA in March 2020. A review of progress and consideration of effectiveness will be undertaken annually.	Complete
12	Changes to the audit and counterfraud plan to be referred to committee in future for approval rather than for information as at present.	Changes in the plan are now approved by the Committee when considering the progress report.	Complete
	Training and Knowledge Enhancements		
	AGS committee identified areas where they were keen to have more training and briefing sessions. Topics requested initially by members detailed below.		
13	Briefing on corporate risk register and risk maturity to be provided.		Complete
14	Training session on understanding the financial statements, what they should be looking for, and what sort of questions they should be asking, prior to receiving the financial statements in		Complete

No.	Action	Progress Update	Status
	June.		
15	Briefing session on CIPFA/ALARM risk management benchmarking club	Not actioned as no relevant benchmarking undertaken in 2020	On hold - pending activity to report
16	Briefing on contract risks.	This was covered in Strategic Risk Session.	Complete
17	Briefing on about Investment Risks faced by ECC.	Session to take place March 2021	Complete

Report title: LGA Model Code of Conduct	
Report to: Audit, Governance and Standards Committee	
Report author: Paul Turner, Director, Legal and Assurance	
Date: 22 March 2021	For: Decision
Enquiries to Paul Turner, paul.turner@essex.gov.uk	
County Divisions affected: All Essex	

1. Purpose of report

- 1.1 In December 2020, following a consultation, the Local Government Association (LGA) published a model code of conduct regulating the standards of behaviour expected of councillors. This report asks the Committee to review the code and decide whether or not to recommend that the Council adopts it.

2. Recommendations

- 2.1 That the Committee continues to monitor the evolving picture with respect to the LGA Model Code of Conduct but does not recommend adoption of the LGA code at this time.

3. Background and Issues

- 3.1 In early 2019 the national Committee on Standards in Public Life published a report on standards in local government. They made a number of recommendations to local authorities, to the LGA and to central government. ECC has broadly implemented the recommendations. On 16 November 2020 the Committee received a report on progress in implementing the recommendations. Central government still has not yet responded to the recommendations and we do not yet know if or how it will react.
- 3.2 The key recommendation to the LGA was that it should produce a model code for local authorities to consider adopting. At present all local authorities have their own code. In Essex a 'model' code was produced in 2012 but many authorities – including ECC -- amended the 'model' code to reflect their own circumstances. Over time the 'Essex model' code has been reviewed by individual authorities and now most authorities are using their own code which differs significantly from the Essex Code.
- 3.3 This has a particular impact on members of ECC given that 60-70% of our members are also district councillors and may also be parish or town

councillors – meaning that they may have to remember up to four sets of rules at meetings.

3.4 ECC's starting point should therefore be that it would welcome the introduction of a model national code, in the hope that all Essex authorities will adopt it. The adoption of a national code would of course mean that ECC has to accept a code designed for all local authorities rather than specifically for ECC, but if the code was one that ECC and other Essex authorities could be happy with then the benefits would outweigh the disadvantages.

3.5 In 2020 the LGA consulted on a code. On 6 July 2020 the Committee considered a report about the consultation which said:

'Early conversations with other Essex local authorities indicate that a significant number of authorities are likely to adopt the LGA code but this is of course dependent on the final content of the code and the views of those authorities at the time.'

3.6 In December 2020 the code was published. ECC now needs to decide whether or not to adopt it. The LGA Model code is appended to this report.

3.7 There is limited advantage to ECC in adopting the national code unless a significant number of Essex local authorities also adopt it. Conversations with monitoring officers at other authorities suggest that the broad picture in two tier areas – ie areas covered by a county and district council is likely to fall into one of the following categories:

- Areas which currently have an unsatisfactory code which simply recites the 'Nolan principles' – these authorities are likely to be recommended to adopt the new code as it is an improvement over their current code and will also bring the advantage of a single code. Essex does not fall into this category.
- Areas which have already managed to have a single code across the county area. This is the case in Suffolk. These authorities generally see no reason to change as the national code currently offers no advantages to them – although this may change if they become an outlier.
- Areas where there is no agreed code adopted by all the authorities in the area, where people generally see the advantage of a single code but where the current codes used by individual authorities are satisfactory. In these areas the disadvantages of the current LGA code are seen as outweighing the advantages of a single code.

3.8 The Monitoring Officer has met with other Essex Monitoring Officers in January 2021 and it is clear that the authorities in Essex fall into the third category. The view is that complexities of the new code, particularly relating to declaration of interests mean that we are, regrettably, not yet in a position to recommend adoption to our authorities. For example the LGA Code has arguably six different types of interest, each with their own rules. At present ECC has two different types of interest. A curious piece of drafting would appear to give members an interest in all political parties, regardless of whether or not they were a member of the party.

- 3.9 A letter has been sent to the LGA on behalf of all fifteen monitoring officers expressing disappointment in the LGA code. The LGA have replied saying that the issues may be resolved by guidance on the code or by a future revision to the Code. They have expressed an interest in working to refine the code.
- 3.10 It is therefore recommended that ECC does not adopt the model code of conduct, but that we continue to work with the LGA to help shape a code that we can live with. A decision not to adopt the code now will send a message that the LGA needs to improve the code before we can recommend adoption.
- 3.11 If, contrary to the recommendations in this report, the Committee do wish to recommend adoption to full Council then it can be considered at the annual meeting in May 2021.

4. Financial Implications

- 4.1 This report has no financial implications.

5. Legal Implications

- 5.1 The Council is required by the Localism Act 2011 to adopt a code of conduct which is consistent with the 'Nolan' principles. It has a wide discretion as to what the code says, but there is a clear benefit to it being consistent with codes adopted by other authorities where there is an overlap of membership between ECC and the other authority.

6. List of Appendices

Model LGA code

7. List of background papers

Correspondence between ECC with monitoring officers and the LGA to the extent that such correspondence does not include exempt information.

Local Government Association

Model Councillor Code of Conduct 2020

Joint statement

The role of councillor across all tiers of local government is a vital part of our country's system of democracy. It is important that as councillors we can be held accountable and all adopt the behaviors and responsibilities associated with the role. Our conduct as an individual councillor affects the reputation of all councillors. We want the role of councillor to be one that people aspire to. We also want individuals from a range of backgrounds and circumstances to be putting themselves forward to become councillors.

As councillors, we represent local residents, work to develop better services and deliver local change. The public have high expectations of us and entrust us to represent our local area; taking decisions fairly, openly, and transparently. We have both an individual and collective responsibility to meet these expectations by maintaining high standards and demonstrating good conduct, and by challenging behaviour which falls below expectations.

Importantly, we should be able to undertake our role as a councillor without being intimidated, abused, bullied or threatened by anyone, including the general public.

This Code has been designed to protect our democratic role, encourage good conduct and safeguard the public's trust in local government.

Introduction

The Local Government Association (LGA) has developed this Model Councillor Code of Conduct, in association with key partners and after extensive consultation with the sector, as part of its work on supporting all tiers of local government to continue to aspire to high standards of leadership and performance. It is a template for councils to adopt in whole and/or with local amendments.

All councils are required to have a local Councillor Code of Conduct.

The LGA will undertake an annual review of this Code to ensure it continues to be fit-for-purpose, incorporating advances in technology, social media and changes in legislation. The LGA can also offer support, training and mediation to councils and councillors on the application of the Code and the National Association of Local Councils (NALC) and the county associations of local councils can offer advice and support to town and parish councils.

Definitions

For the purposes of this Code of Conduct, a “councillor” means a member or co-opted member of a local authority or a directly elected mayor. A “co-opted member” is defined in the Localism Act 2011 Section 27(4) as “a person who is not a member of the authority but who

- a) is a member of any committee or sub-committee of the authority, or;
- b) is a member of, and represents the authority on, any joint committee or joint sub-committee of the authority;

and who is entitled to vote on any question that falls to be decided at any meeting of that committee or sub-committee”.

For the purposes of this Code of Conduct, “local authority” includes county councils, district councils, London borough councils, parish councils, town councils, fire and rescue authorities, police authorities, joint authorities, economic prosperity boards, combined authorities and National Park authorities.

Purpose of the Code of Conduct

The purpose of this Code of Conduct is to assist you, as a councillor, in modelling the behaviour that is expected of you, to provide a personal check and balance, and to set out the type of conduct that could lead to action being taken against you. It is also to protect you, the public, fellow councillors, local authority officers and the reputation of local government. It sets out general principles of conduct expected of all councillors and your specific obligations in relation to standards of conduct. The LGA encourages the use of support, training and mediation prior to action being taken using the Code. The fundamental aim of the Code is to create and maintain public confidence in the role of councillor and local government.

General principles of councillor conduct

Everyone in public office at all levels; all who serve the public or deliver public services, including ministers, civil servants, councillors and local authority officers; should uphold the [Seven Principles of Public Life](#), also known as the Nolan Principles.

Building on these principles, the following general principles have been developed specifically for the role of councillor.

In accordance with the public trust placed in me, on all occasions:

- I act with integrity and honesty
- I act lawfully
- I treat all persons fairly and with respect; and
- I lead by example and act in a way that secures public confidence in the role of councillor.

In undertaking my role:

- I impartially exercise my responsibilities in the interests of the local community
- I do not improperly seek to confer an advantage, or disadvantage, on any person
- I avoid conflicts of interest
- I exercise reasonable care and diligence; and
- I ensure that public resources are used prudently in accordance with my local authority's requirements and in the public interest.

Application of the Code of Conduct

This Code of Conduct applies to you as soon as you sign your declaration of acceptance of the office of councillor or attend your first meeting as a co-opted member and continues to apply to you until you cease to be a councillor.

This Code of Conduct applies to you when you are acting in your capacity as a councillor which may include when:

- you misuse your position as a councillor
- Your actions would give the impression to a reasonable member of the public with knowledge of all the facts that you are acting as a councillor;

The Code applies to all forms of communication and interaction, including:

- at face-to-face meetings
- at online or telephone meetings
- in written communication
- in verbal communication
- in non-verbal communication
- in electronic and social media communication, posts, statements and comments.

You are also expected to uphold high standards of conduct and show leadership at all times when acting as a councillor.

Your Monitoring Officer has statutory responsibility for the implementation of the Code of Conduct, and you are encouraged to seek advice from your Monitoring Officer on any matters that may relate to the Code of Conduct. Town and parish councillors are encouraged to seek advice from their Clerk, who may refer matters to the Monitoring Officer.

Standards of councillor conduct

This section sets out your obligations, which are the minimum standards of conduct required of you as a councillor. Should your conduct fall short of these standards, a complaint may be made against you, which may result in action being taken.

Guidance is included to help explain the reasons for the obligations and how they should be followed.

General Conduct

1. Respect

As a councillor:

1.1 I treat other councillors and members of the public with respect.

1.2 I treat local authority employees, employees and representatives of partner organisations and those volunteering for the local authority with respect and respect the role they play.

Respect means politeness and courtesy in behaviour, speech, and in the written word. Debate and having different views are all part of a healthy democracy. As a councillor, you can express, challenge, criticise and disagree with views, ideas, opinions and policies in a robust but civil manner. You should not, however, subject individuals, groups of people or organisations to personal attack.

In your contact with the public, you should treat them politely and courteously. Rude and offensive behaviour lowers the public's expectations and confidence in councillors.

In return, you have a right to expect respectful behaviour from the public. If members of the public are being abusive, intimidating or threatening you are entitled to stop any conversation or interaction in person or online and report them to the local authority, the relevant social media provider or the police. This also applies to fellow councillors, where action could then be taken under the Councillor Code of Conduct, and local authority employees, where concerns should be raised in line with the local authority's councillor-officer protocol.

2. Bullying, harassment and discrimination

As a councillor:

2.1 I do not bully any person.

2.2 I do not harass any person.

2.3 I promote equalities and do not discriminate unlawfully against any person.

The Advisory, Conciliation and Arbitration Service (ACAS) characterises bullying as offensive, intimidating, malicious or insulting behaviour, an abuse or misuse of power through means that undermine, humiliate, denigrate or injure the recipient. Bullying might be a regular pattern of behaviour or a one-off incident, happen face-to-face, on social media, in emails or phone calls, happen in the workplace or at work social events and may not always be obvious or noticed by others.

The Protection from Harassment Act 1997 defines harassment as conduct that causes alarm or distress or puts people in fear of violence and must involve such conduct on at least two occasions. It can include repeated attempts to impose unwanted communications and contact upon a person in a manner that could be expected to cause distress or fear in any reasonable person.

Unlawful discrimination is where someone is treated unfairly because of a protected characteristic. Protected characteristics are specific aspects of a person's identity defined by the Equality Act 2010. They are age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

The Equality Act 2010 places specific duties on local authorities. Councillors have a central role to play in ensuring that equality issues are integral to the local authority's performance and strategic aims, and that there is a strong vision and public commitment to equality across public services.

3. Impartiality of officers of the council

As a councillor:

3.1 I do not compromise, or attempt to compromise, the impartiality of anyone who works for, or on behalf of, the local authority.

Officers work for the local authority as a whole and must be politically neutral (unless they are political assistants). They should not be coerced or persuaded to act in a way that would undermine their neutrality. You can question officers in order to understand, for example, their reasons for proposing to act in a particular way, or the content of a report that they have written. However, you must not try and force them to act differently, change their advice, or alter the content of that report, if doing so would prejudice their professional integrity.

4. Confidentiality and access to information

As a councillor:

4.1 I do not disclose information:

- a. given to me in confidence by anyone**
- b. acquired by me which I believe, or ought reasonably to be aware, is of a confidential nature, unless**
 - i. I have received the consent of a person authorised to give it;**
 - ii. I am required by law to do so;**
 - iii. the disclosure is made to a third party for the purpose of obtaining professional legal advice provided that the third party agrees not to disclose the information to any other person; or**
 - iv. the disclosure is:**
 - 1. reasonable and in the public interest; and**
 - 2. made in good faith and in compliance with the reasonable requirements of the local authority; and**
 - 3. I have consulted the Monitoring Officer prior to its release.**

4.2 I do not improperly use knowledge gained solely as a result of my role as a councillor for the advancement of myself, my friends, my family members, my employer or my business interests.

4.3 I do not prevent anyone from getting information that they are entitled to by law.

Local authorities must work openly and transparently, and their proceedings and printed materials are open to the public, except in certain legally defined circumstances. You should work on this basis, but there will be times when it is required by law that discussions, documents and other information relating to or held by the local authority must be treated in a confidential manner. Examples include personal data relating to individuals or information relating to ongoing negotiations.

5. Disrepute

As a councillor:

5.1 I do not bring my role or local authority into disrepute.

As a Councillor, you are trusted to make decisions on behalf of your community and your actions and behaviour are subject to greater scrutiny than that of ordinary members of the public. You should be aware that your actions might have an adverse impact on you, other councillors and/or your local authority and may lower the public's confidence in you or your local authority's ability to discharge your/its functions. For example, behaviour that is considered dishonest and/or deceitful can bring your local authority into disrepute.

You are able to hold the local authority and fellow councillors to account and are able to constructively challenge and express concern about decisions and processes undertaken by the council whilst continuing to adhere to other aspects of this Code of Conduct.

6. Use of position

As a councillor:

6.1 I do not use, or attempt to use, my position improperly to the advantage or disadvantage of myself or anyone else.

Your position as a member of the local authority provides you with certain opportunities, responsibilities and privileges, and you make choices all the time that will impact others. However, you should not take advantage of these opportunities to further your own or others' private interests or to disadvantage anyone unfairly.

7. Use of local authority resources and facilities

As a councillor:

7.1 I do not misuse council resources.

7.2 I will, when using the resources of the local or authorising their use by others:

- a. act in accordance with the local authority's requirements; and**
- b. ensure that such resources are not used for political purposes unless that use could reasonably be regarded as likely to facilitate, or be conducive to, the discharge of the functions of the local authority or of the office to which I have been elected or appointed.**

You may be provided with resources and facilities by the local authority to assist you in carrying out your duties as a councillor.

Examples include:

- office support
- stationery
- equipment such as phones, and computers
- transport
- access and use of local authority buildings and rooms.

These are given to you to help you carry out your role as a councillor more effectively and are not to be used for business or personal gain. They should be used in accordance with the purpose for which they have been provided and the local authority's own policies regarding their use.

8. Complying with the Code of Conduct

As a Councillor:

8.1 I undertake Code of Conduct training provided by my local authority.

8.2 I cooperate with any Code of Conduct investigation and/or determination.

8.3 I do not intimidate or attempt to intimidate any person who is likely to be involved with the administration of any investigation or proceedings.

8.4 I comply with any sanction imposed on me following a finding that I have breached the Code of Conduct.

It is extremely important for you as a councillor to demonstrate high standards, for you to have your actions open to scrutiny and for you not to undermine public trust in the local authority or its governance. If you do not understand or are concerned about the local authority's processes in handling a complaint you should raise this with your Monitoring Officer.

Protecting your reputation and the reputation of the local authority

9. Interests

As a councillor:

9.1 I register and disclose my interests.

Section 29 of the Localism Act 2011 requires the Monitoring Officer to establish and maintain a register of interests of members of the authority .

You need to register your interests so that the public, local authority employees and fellow councillors know which of your interests might give rise to a conflict of interest. The register is a public document that can be consulted when (or before) an issue arises. The register also protects you by allowing you to demonstrate openness and a willingness to be held accountable. You are personally responsible for deciding whether or not you should disclose an interest in a meeting, but it can be helpful for you to know early on if others think that a potential conflict might arise. It is also important that the public know about any interest that might have to be disclosed by you or other councillors when making or taking part in decisions, so that decision making is seen by the public as open and honest. This helps to ensure that public confidence in the integrity of local governance is maintained.

You should note that failure to register or disclose a disclosable pecuniary interest as set out in Table 1, is a criminal offence under the Localism Act 2011.

Appendix B sets out the detailed provisions on registering and disclosing interests. If in doubt, you should always seek advice from your Monitoring Officer.

10. Gifts and hospitality

As a councillor:

- 10.1 I do not accept gifts or hospitality, irrespective of estimated value, which could give rise to real or substantive personal gain or a reasonable suspicion of influence on my part to show favour from persons seeking to acquire, develop or do business with the local authority or from persons who may apply to the local authority for any permission, licence or other significant advantage.**
- 10.2 I register with the Monitoring Officer any gift or hospitality with an estimated value of at least £50 within 28 days of its receipt.**
- 10.3 I register with the Monitoring Officer any significant gift or hospitality that I have been offered but have refused to accept.**

In order to protect your position and the reputation of the local authority, you should exercise caution in accepting any gifts or hospitality which are (or which you reasonably believe to be) offered to you because you are a councillor. The presumption should always be not to accept significant gifts or hospitality. However, there may be times when such a refusal may be difficult if it is seen as rudeness in which case you could accept it but must ensure it is publicly registered. However, you do not need to register gifts and hospitality which are not related to your role as a councillor, such as Christmas gifts from your friends and family. It is also important to note that it is appropriate to accept normal expenses and hospitality associated with your duties as a councillor. If you are unsure, do contact your Monitoring Officer for guidance.

Appendices

Appendix A – The Seven Principles of Public Life

The principles are:

Selflessness

Holders of public office should act solely in terms of the public interest.

Integrity

Holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must disclose and resolve any interests and relationships.

Objectivity

Holders of public office must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.

Accountability

Holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.

Openness

Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.

Honesty

Holders of public office should be truthful.

Leadership

Holders of public office should exhibit these principles in their own behaviour. They should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.

Appendix B Registering

interests

Within 28 days of becoming a member or your re-election or re-appointment to office you must register with the Monitoring Officer the interests which fall within the categories set out in **Table 1 (Disclosable Pecuniary Interests)** which are as described in "The Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012". You should also register details of your other personal interests which fall within the categories set out in **Table 2 (Other Registerable Interests)**.

"Disclosable pecuniary interest" means an interest of yourself, or of your partner if you are aware of your partner's interest, within the descriptions set out in Table 1 below.

"Partner" means a spouse or civil partner, or a person with whom you are living as husband or wife, or a person with whom you are living as if you are civil partners.

1. You must ensure that your register of interests is kept up-to-date and within 28 days of becoming aware of any new interest, or of any change to a registered interest, notify the Monitoring Officer.
2. A 'sensitive interest' is as an interest which, if disclosed, could lead to the councillor, or a person connected with the councillor, being subject to violence or intimidation.
3. Where you have a 'sensitive interest' you must notify the Monitoring Officer with the reasons why you believe it is a sensitive interest. If the Monitoring Officer agrees they will withhold the interest from the public register.

Non participation in case of disclosable pecuniary interest

4. Where a matter arises at a meeting which directly relates to one of your Disclosable Pecuniary Interests as set out in **Table 1**, you must disclose the interest, not participate in any discussion or vote on the matter and must not remain in the room unless you have been granted a dispensation. If it is a 'sensitive interest', you do not have to disclose the nature of the interest, just that you have an interest. Dispensation may be granted in limited circumstances, to enable you to participate and vote on a matter in which you have a disclosable pecuniary interest.
5. Where you have a disclosable pecuniary interest on a matter to be considered or is being considered by you as a Cabinet member in exercise of your executive function, you must notify the Monitoring Officer of the interest and must not take any steps or further steps in the matter apart from arranging for someone else to deal with it

Disclosure of Other Registerable Interests

6. Where a matter arises at a meeting which **directly relates** to one of your Other Registerable Interests (as set out in Table 2), you must disclose the interest. You may speak on the matter only if members of the public are also allowed to speak at the meeting but otherwise must not take part in any discussion or vote on the matter and must not remain in the room unless you have been granted a dispensation. If it

is a 'sensitive interest', you do not have to disclose the nature of the interest.

Disclosure of Non-Registerable Interests

7. Where a matter arises at a meeting which **directly relates** to your financial interest or well-being (and is not a Disclosable Pecuniary Interest set out in Table 1) or a financial interest or well-being of a relative or close associate, you must disclose the interest. You may speak on the matter only if members of the public are also allowed to speak at the meeting but otherwise must not take part in any discussion or vote on the matter and must not remain in the room unless you have been granted a dispensation. If it is a 'sensitive interest', you do not have to disclose the nature of the interest.
8. Where a matter arises at a meeting which **affects** –
 - a. your own financial interest or well-being;
 - b. a financial interest or well-being of a friend, relative, close associate; or
 - c. a body included in those you need to disclose under Disclosable Pecuniary Interests as set out in **Table 1**

you must disclose the interest. In order to determine whether you can remain in the meeting after disclosing your interest the following test should be applied

9. Where a matter **affects** your financial interest or well-being:
 - a. to a greater extent than it affects the financial interests of the majority of inhabitants of the ward affected by the decision and;
 - b. a reasonable member of the public knowing all the facts would believe that it would affect your view of the wider public interest

You may speak on the matter only if members of the public are also allowed to speak at the meeting but otherwise must not take part in any discussion or vote on the matter and must not remain in the room unless you have been granted a dispensation.

If it is a 'sensitive interest', you do not have to disclose the nature of the interest.

10. Where you have a personal interest in any business of your authority and you have made an executive decision in relation to that business, you must make sure that any written statement of that decision records the existence and nature of your interest.

Table 1: Disclosable Pecuniary Interests

This table sets out the explanation of Disclosable Pecuniary Interests as set out in the [Relevant Authorities \(Disclosable Pecuniary Interests\) Regulations 2012](#).

Subject	Description
Employment, office, trade, profession or vocation	Any employment, office, trade, profession or vocation carried on for profit or gain. [Any unpaid directorship.]
Sponsorship	Any payment or provision of any other financial benefit (other than from the council) made to the councillor during the previous 12-month period for expenses incurred by him/her in carrying out his/her duties as a councillor, or towards his/her election expenses. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.
Contracts	Any contract made between the councillor or his/her spouse or civil partner or the person with whom the

	<p>councillor is living as if they were spouses/civil partners (or a firm in which such person is a partner, or an incorporated body of which such person is a director* or a body that such person has a beneficial interest in the securities of*) and the council —</p> <p>(a) under which goods or services are to be provided or works are to be executed; and</p> <p>(b) which has not been fully discharged.</p>
Land and Property	<p>Any beneficial interest in land which is within the area of the council.</p> <p>'Land' excludes an easement, servitude, interest or right in or over land which does not give the councillor or his/her spouse or civil partner or the person with whom the councillor is living as if they were spouses/civil partners (alone or jointly with another) a right to occupy or to receive income.</p>
Licenses	<p>Any licence (alone or jointly with others) to occupy land in the area of the council for a month or longer</p>
Corporate tenancies	<p>Any tenancy where (to the councillor's knowledge)—</p> <p>(a) the landlord is the council; and</p> <p>(b) the tenant is a body that the councillor, or his/her spouse or civil partner or the person with whom the councillor is living as if they were spouses/civil partners is a partner of or a director* of or has a beneficial interest in the securities* of.</p>
Securities	<p>Any beneficial interest in securities* of a body where—</p> <p>(a) that body (to the councillor's knowledge) has a place of business or land in the area of the council; and</p> <p>(b) either—</p> <p>(i) the total nominal value of the securities* exceeds £25,000 or one hundredth of the total issued share capital of that body; or</p> <p>(ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the councillor, or his/her spouse or civil partner or the person with whom the councillor is living as if they were</p>

	spouses/civil partners has a beneficial interest exceeds one hundredth of the total issued share capital of that class.
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* 'director' includes a member of the committee of management of an industrial and provident society.

* 'securities' means shares, debentures, debenture stock, loan stock, bonds, units of a collective investment scheme within the meaning of the Financial Services and Markets Act 2000 and other securities of any description, other than money deposited with a building society.

Table 2: Other Registerable Interests

<p>You have a personal interest in any business of your authority where it relates to or is likely to affect:</p> <ul style="list-style-type: none"> a) any body of which you are in general control or management and to which you are nominated or appointed by your authority b) any body <ul style="list-style-type: none"> (i) exercising functions of a public nature (ii) any body directed to charitable purposes or (iii) one of whose principal purposes includes the influence of public opinion or policy (including any political party or trade union)
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Appendix C – the Committee on Standards in Public Life

The LGA has undertaken this review whilst the Government continues to consider the recommendations made by the Committee on Standards in Public Life in their report on [Local Government Ethical Standards](#). If the Government chooses to implement any of the recommendations, this could require a change to this Code.

The recommendations cover:

- Recommendations for changes to the Localism Act 2011 to clarify in law when the Code of Conduct applies
- The introduction of sanctions
- An appeals process through the Local Government Ombudsman
- Changes to the Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012
- Updates to the Local Government Transparency Code
- Changes to the role and responsibilities of the Independent Person
- That the criminal offences in the Localism Act 2011 relating to Disclosable Pecuniary Interests should be abolished

The Local Government Ethical Standards report also includes Best Practice recommendations. These are:

Best practice 1: Local authorities should include prohibitions on bullying and harassment in codes of conduct. These should include a definition of bullying and harassment, supplemented with a list of examples of the sort of behaviour covered by such a definition.

Best practice 2: Councils should include provisions in their code of conduct requiring councillors to comply with any formal standards investigation and prohibiting trivial or malicious allegations by councillors.

Best practice 3: Principal authorities should review their code of conduct each year and regularly seek, where possible, the views of the public, community organisations and neighbouring authorities.

Best practice 4: An authority's code should be readily accessible to both councillors and the public, in a prominent position on a council's website and available in council premises.

Best practice 5: Local authorities should update their gifts and hospitality register at least once per quarter, and publish it in an accessible format, such as CSV.

Best practice 6: Councils should publish a clear and straightforward public interest test against which allegations are filtered.

Best practice 7: Local authorities should have access to at least two Independent Persons.

Best practice 8: An Independent Person should be consulted as to whether to undertake a formal investigation on an allegation, and should be given the option to

review and comment on allegations which the responsible officer is minded to dismiss as being without merit, vexatious, or trivial.

Best practice 9: Where a local authority makes a decision on an allegation of misconduct following a formal investigation, a decision notice should be published as soon as possible on its website, including a brief statement of facts, the provisions of the code engaged by the allegations, the view of the Independent Person, the reasoning of the decision-maker, and any sanction applied.

Best practice 10: A local authority should have straightforward and accessible guidance on its website on how to make a complaint under the code of conduct, the process for handling complaints, and estimated timescales for investigations and outcomes.

Best practice 11: Formal standards complaints about the conduct of a parish councillor towards a clerk should be made by the chair or by the parish council, rather than the clerk in all but exceptional circumstances.

Best practice 12: Monitoring Officers' roles should include providing advice, support and management of investigations and adjudications on alleged breaches to parish councils within the remit of the principal authority. They should be provided with adequate training, corporate support and resources to undertake this work.

Best practice 13: A local authority should have procedures in place to address any conflicts of interest when undertaking a standards investigation. Possible steps should include asking the Monitoring Officer from a different authority to undertake the investigation.

Best practice 14: Councils should report on separate bodies they have set up or which they own as part of their annual governance statement and give a full picture of their relationship with those bodies. Separate bodies created by local authorities should abide by the Nolan principle of openness and publish their board agendas and minutes and annual reports in an accessible place.

Best practice 15: Senior officers should meet regularly with political group leaders or group whips to discuss standards issues.

The LGA has committed to reviewing the Code on an annual basis to ensure it is still fit for purpose.

Report title: Internal Audit Charter	
Report to: Audit, Governance and Standards Committee	
Report author: Paula Clowes – Head of Assurance	
Date: 22 March 2021	For: Approval
Enquiries to: Paula Clowes – Head of Assurance paula.clowes@essex.gov.uk	
County Divisions affected: All Essex	

1. Purpose of Report

The Internal Audit Charter is a formal document that defines Internal Audit's purpose, authority, responsibility and position within Essex County Council (ECC). This report seeks formal adoption of the Charter after its annual review.

2. Recommendation

- 2.1 That the updated Charter is adopted in the form presented at appendix 1.

3. Background

- 3.1 The Internal Audit Charter is presented to the AGS Committee annually for adoption. The Charter and its contents are a requirement of the Public Sector Internal Audit Standards and it sets out the purpose, scope, responsibilities and independence of the Internal Audit service.

4.1 Summary of Key Changes

- 4.1 The draft charter is broadly similar to the current charter. The main changes are:
- The Charter has been reviewed with the aim of making it clearer and easier to read.
 - Team names and job titles changed where required to reflect changes in management arrangements.
 - Reference to 'Three Lines of Defence' have been changed to 'Three Lines' in line with recent change by Chartered Institute of Internal Auditors.

5. Financial Implications

- 5.1 There are no financial implications as the Internal Audit and Counter Fraud activity is met within existing resources.

6. Legal Implications

- 6.1 Internal Audit and Counter Fraud activity is a means by 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 then provide assurance as to whether those controls are operating as intended.

7. Equality and Diversity Implications

- 7.1 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.
- 7.2 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 this report.

8. List of Appendices

Appendix 1: Internal Audit Charter.

9. List of Background Papers

Public Sector Internal Audit Standards.



Essex County Council

2021/2022

Internal Audit Charter



Protecting the Public Purse



Going Beyond Compliance



Delivering Strategic Value

Version	2021/22
Approved By	Audit, Governance and Standards Committee
Date Approved	
Author	Paula Clowes, Head of Assurance (Chief Audit Executive)
Next Review Date	March 2022
Date Issued	22 March 2021

Contents

- 1 Introduction
- 2 Purpose, Activities and Scope
- 3 Independence and Authority
- 4 Responsibility
- 5 Professional Standards and Quality Assurance

1 - Introduction

Internal Audit (IA) is defined by the Institute of Internal Auditors' International Professional Practices Framework (IPPF) as *'an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes'*.

This Charter is in place to formally define the Internal Audit Service's role and responsibilities. It supports the work of Internal Audit by setting out its purpose, scope, independence, authority, professional standards and quality assurance approach.

Attribute Standard 1000 of the Public Sector Internal Audit Standards (PSIAS) requires that the purpose, authority and responsibility of the IA activity must be formally defined within an IA Charter that is consistent with the Definition of Internal Auditing, the Code of Ethics and the PSIAS. It is considered good practice to assign responsibility for the efficiency and effectiveness of IA activity to a Chief Audit Executive (CAE). At Essex County Council (the Council), this role is fulfilled by the Head of Assurance (HoA), who subsequently leads on the functional reporting relationship with the Board. It should be noted that the Council defines the terminology contained within the PSIAS of 'Board' as the Audit, Governance and Standards (AGS) Committee, 'senior management' as the Corporate Leadership Team (CLT) and 'Chief Audit Executive' as the HoA.

The effective operation of IA is a key part of the control environment required for the Council to achieve its objectives and to meet its obligations. This charter therefore sets out the purpose, activities, scope and responsibilities of the IA function within the Council. It also defines the nature of the CAE's functional reporting relationship with the Audit, Governance and Standards (AGS) Committee (ensuring independence from 1st and 2nd line management); authorises access to records, people and property relevant to the performance of engagements; and defines the scope of IA's activities.

In a local authority context, IA provides independent and objective assurance to the organisation, its Members, the CLT, and assists the s151 Officer in discharging their responsibilities under s151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.

More specifically, the Accounts and Audit Regulations 2015 (the regulations) require that 'a relevant authority must undertake an effective IA to evaluate the effectiveness of its risk management, control and governance processes, taking into account PSIAS or guidance'.

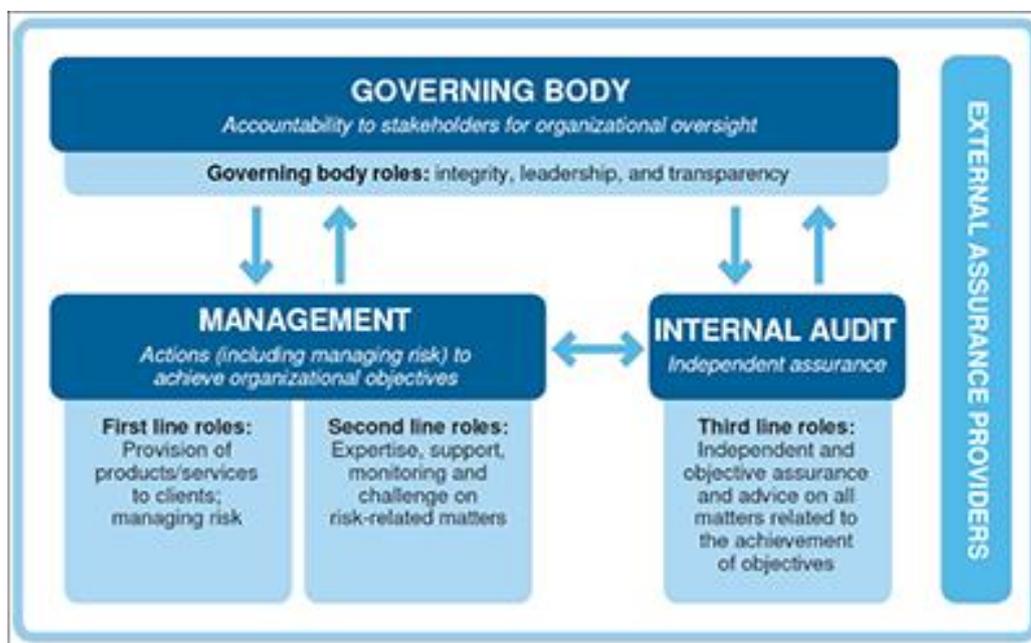
2 - Purpose, Activities and Scope

Purpose

IA's purpose is to provide independent, objective assurance and advice to assist the Council to effectively meet its objectives, manage the risks it is exposed to and add value to the organisation by improving its operations. In doing so, IA supports those charged with governance in discharging their responsibilities and reporting annually on the system of internal control within the Council's Annual Governance Statement.

The IA function is the **third** line in the Council’s ‘three lines approach’ to risk and assurance. The first line comprises the Council’s core operational services, and the second line comprises the oversight functions such as risk management.

The following diagram summarises the three lines model and explains where IA fits into the Council’s assurance processes.



*(<https://na.theiia.org>)

IA provides a service in accordance with the requirements set out in the mandatory PSIAS, comprising the Definition of Internal Auditing and the Code of Ethics. In order to do so, IA adopts a risk-based auditing approach and maintains an IA Manual to support compliance with PSIAS.

Activities and Scope

The role of IA involves the review of the design, adequacy and operating effectiveness of the Council’s governance processes, risk management procedures, internal control environment and information systems. IA provides reasonable, but not absolute, assurance as to the adequacy and effectiveness of the Council’s governance, risk management and control processes using a systematic and disciplined approach. To fulfil responsibilities in this regard, IA shall:

- Review (using a risk-based approach) the Council’s operations, in conjunction with the Risk Management and Assurance functions and other key stakeholders;
- Review the adequacy of the design and effectiveness of controls to manage risks to the organisation and to ensure compliance with policies, plans, procedures and business objectives established by management;
- Review established procedures and systems and propose improvements (including those considered to be good practice advice);
- Assess the reliability and integrity of information.

There are inherent limitations in any system of internal control and thus errors or irregularities may occur and not be detected by IA’s work. Unless specifically requested and agreed, IA will not perform substantive testing of underlying transactions. Audit procedures alone cannot

guarantee the detection of fraud or corruption. Managing the risk of fraud and corruption is the responsibility of management. Internal Auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption and the Counter Fraud Team will investigate allegations of fraud and corruption.

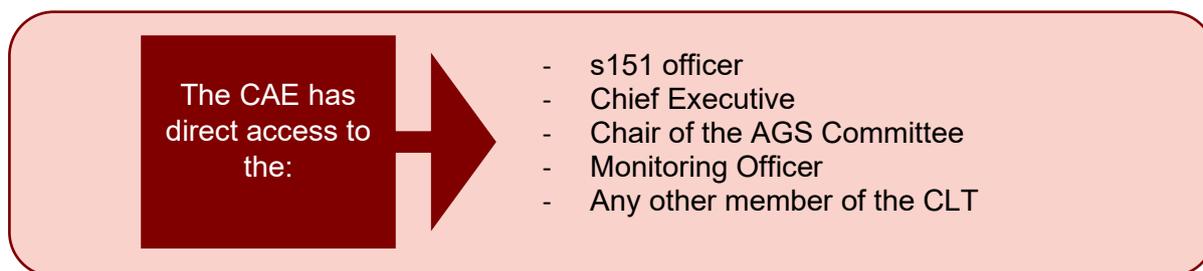
IA may also provide consultancy services, such as advice and guidance on new design and implementation control, particularly through periods of organisational change. Consultancy work may be driven by risk-based planning but may also be at management request where the organisation's risk and control systems and processes are embryonic or not yet mature, for example where there is no system of risk management or control framework to assure. However, any significant consulting activity not already included in the IA Plan and which might affect the level of assurance work undertaken will be reported to the AGS Committee.

3 - Independence and Authority

Independence

IA has organisational independence, has no executive role, nor does it have any direct responsibility for the implementation of or operation of systems. Organisational independence is reported annually via the approval of the annual IA Plan and presentation of the IA Annual Report and Audit Opinion. IA also complete declarations of interest statements to highlight and avoid any conflicts of interest.

To ensure independence, IA is directly accountable to the Chair of the AGS Committee. For operational purposes, IA will liaise with the Council's s151 Officer



Authority

IA derives authority through the AGS Committee and has unrestricted rights of access to all Council records and information, cash, stores and other property or assets it considers necessary to fulfil its responsibilities. IA may enter Council property and has unrestricted access to all locations and officers where necessary on demand and without prior notice.

IA therefore has authority to:

- Access any Council premises, assets, records, documents and correspondence, and control systems.
- Receive any information and explanation related to any matter under consideration.
- Require any employee of the Council or school maintained by the Council to account for cash, stores or any other asset under his or her control.
- Access records belonging to third parties (e.g. partners, contractors / delivery vehicles commissioned to deliver services) when required.
- Directly access the Chief Executive, the Cabinet, the AGS Committee and the Council's scrutiny committees.

Any restriction (management or other) on the scope of IA's activities will be reported to the AGS Committee.

IA is accountable for the safekeeping and confidentiality of any information and assets acquired in the course of its duties and execution of its responsibilities.

Where the CAE has roles and/or responsibilities that fall outside of internal auditing, the PSIAS require that safeguards must be in place to limit impairments to independence or objectivity. When asked to undertake any such additional roles/responsibilities outside of internal auditing: *'the chief audit executive must highlight to the board any potential or perceived impairment to independence and objectivity having regard to the principles contained within the Code of Ethics as well as any relevant requirements set out by other professional bodies to which the CAE may belong. The board must approve and periodically review any safeguards put in place to limit impairments to independence and objectivity (see also Standard 1000 Purpose, Authority and Responsibility)'*.

Potential Risks – The perceived conflicts to independence:

1. The composition of the annual IA Plan (e.g. the exclusion of areas controlled by the CAE).

2. IA assurance activity undertaken on the areas controlled by the CAE.

Process to ensure Independence:

1. The risk-based IA Plan is approved by the AGS Committee and the s151 Officer.

2. A statement is included within the Draft IA Plan explaining why any operational areas under the Chief Audit Executive have been excluded.

The independence of the CAE is further safeguarded by ensuring that the performance management of the postholder is not inappropriately influenced by those subject to audit. This is achieved by providing the opportunity for both the Chief Executive and the Chairman of the AGS Committee to contribute feedback. This is consistent with the requirements of the PSIAS.

It is recognised that the CAE also has other operational responsibilities. It is important to ensure that these services are appropriately considered in respect of the audit planning cycle and management of planned audit activity arrangements.

Where audit activity under the remit of the CAE is included in the IA Plan, Terms of Reference are reviewed and signed off by the Council's Monitoring Officer. The Monitoring Officer may also decide whether the review should be undertaken by the in-house team or by an external provider.

4 - Responsibility

Audit Planning

The annual IA Plan is compiled by the CAE with input from the Chief Executive, Executive Directors, s151 Officer, the Monitoring Officer and other key stakeholders. It is then presented to the AGS Committee for approval.

The IA Plan is based on a risk assessment, identifying business objectives, key risks impacting those objectives and taking into consideration input from management and other key stakeholders.

If needed, adjustments can be made to the IA Plan during the year (e.g. as a result of emerging risks and issues, or due to changes in approach to specific audits) but any such changes will require approval by the s151 Officer and communication to the AGS Committee.

Audit Execution

IA is responsible for planning, conducting, reporting and following up on audit assignments included in the IA Plan, and deciding on the scope and timing of audits. Audit fieldwork should be conducted in a professional and timely manner. Reporting of results will include an open process to agree with management the facts, validity and practicality of implementing audit recommendations.

IA is responsible for reporting to management and the AGS Committee significant issues relating to the processes and activities identified in an audit assignment, including potential improvements to those processes.

IA will monitor the implementation of actions by management in response to audit findings and will be responsible for the closure of completed actions.

In accordance with the Council's Counter Fraud & Anti-Bribery Strategy and Financial Regulations, members, officers, and staff must report any allegations of fraud to the CAE (in practice referrals are made to the Counter Fraud Team).

Reporting

The PSIAS require the CAE to report to the Board and Senior Leaders:

- An IA Charter.
- An annual IA Plan.
- The IA budget (in compliance with the PSIAS).

IA will also report on the following:

- The adequacy, or otherwise, of the level of IA resources (as determined by the CAE) and the independence of IA.
- Performance against the IA Plan and any significant risk exposures and control issues arising from audit work.
- Any significant consulting activity not already included in the risk-based IA Plan and which might affect the level of assurance work undertaken.
- Any significant outcomes from IA's Quality Assurance and Improvement Programme.
- Any instances of non-conformance with the PSIAS.

Interaction with Other Control and Assurance Activities

IA shall communicate on an on-going basis with other assurance providers (such as External Audit) in order to help ensure optimal audit coverage and reduce the risk of duplication of effort and unnecessary costs.

5 - Professional Standards and Quality Assurance

Professional Standards

IA must exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. In performing their duties, IA must at all times exercise due professional care. IA therefore adheres to PSIAS, the Institute of Internal Auditors' mandatory Standards including the Definition of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing (Standards).

Full details of the PSIAS can be accessed via:

<https://www.cipfa.org/policy-and-guidance/standards/public-sector-internal-audit-standards>

Quality Assurance

IA is subject to a Quality Assurance and Improvement Programme which covers all aspects of IA activity. This consists of an annual self-assessment of the service and its compliance with the PSIAS, on-going performance monitoring and an external assessment at least once every five years by a suitably qualified, independent assessor.

The CAE is required to hold a professional qualification (CCAB or CMIIA) and be suitably experienced.

A programme of Continuous Professional Development (CPD) is maintained for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies.

It is also a requirement that IA must be appropriately resourced. The CAE is responsible for appointing the staff to deliver the IA service and will ensure that appointments are made to ensure an appropriate mix of qualifications, experience and audit skills.

In addition to in-house IA resource, the CAE may engage the use of external resources where it is considered appropriate, including the use of specialist providers e.g. IT internal audit provision.

The CAE is responsible for ensuring that the resources of IA are sufficient to meet its responsibilities and achieve its objectives. If a situation arose whereby the CAE concluded that resources were deemed insufficient, the CAE must formally report this to the s151 Officer and the AGS Committee.

Key Contacts:

- **Paula Clowes - Head of Assurance (Paula.Clowes@essex.gov.uk)**
- **Sarah Harris - Strategic Internal Audit Manager (Sarah.Harris@essex.gov.uk)**

For general enquiries, please contact:

- **Internal Audit (Internal.Audit@essex.gov.uk) OR**
- **Counter Fraud Team (CounterFraud.Team@essex.gov.uk)**

Audit, Governance and Standards Committee – Work Programme 2021 - 2022

The Work Programme is a document that is subject to revision as circumstances change.

**Agenda item
AGS/11/21**

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Meeting	Topic	Author	Notes
28 June 2021	Internal Audit and Counter Fraud Annual Report for the year ended 31 March 2021	Paula Clowes, Head of Assurance	
	To receive the Draft Statement of Accounts 2020/2021 and the Draft Annual Governance Statement	Nicole Wood, Executive Director, Finance and Technology, Paul Turner, Director, Legal and Assurance and Christine Golding, Chief Accountant.	
	Review of Register of Gifts and Hospitality Register	Paul Turner, Director, Legal and Assurance	
	Annual report on the work of the AGS committee	Paul Turner, Director, Legal and Assurance	To thereafter be reported to Council in July 2021

Meeting	Topic	Author	Notes
27 September 2021	Internal Audit and Counter Fraud progress report	Paula Clowes, Head of Assurance	
	To Approve the Statement of Accounts 2020/2021 and the Annual Governance Statement	Nicole Wood, Executive Director, Finance and Technology, Paul Turner, Director, Legal and Assurance and Christine Golding, Chief Accountant.	
	2020/2021 Audit Completion Report for Essex County Council (from external auditor)	Nicole Wood, Executive Director, Finance and Technology and Christine Golding, Chief Accountant.	Annual report
	2020/2021 Audit Completion Report for the Essex Pension Fund (from external auditor)	Nicole Wood, Executive Director, Finance and Technology and Christine Golding, Chief Accountant.	Annual report

Meeting	Topic	Author	Notes
15 November 2021	Internal Audit and Counter Fraud progress report	Paula Clowes, Head of Assurance	
	Annual Audit Letter – 2020/21 To formally present the External Auditor's Annual Audit Letter for the year ending 31 March 2021	From external auditors	Annual report

Meeting	Topic	Author	Notes
17 January 2022	Internal Audit and Counter Fraud progress report	Paula Clowes, Head of Assurance	

Meeting	Topic	Author	Notes
21 March 2022	Internal Audit and Counter Fraud progress report	Paula Clowes, Head of Assurance	
	Updating of Risk Management Strategy	Paula Clowes, Head of Assurance	Annual report
	Regulation of Investigatory Powers Act 2000 - review of activity on use of Directed Surveillance and Covert Human Intelligence Sources (CHIS)	Paul Turner, Director, Legal and Assurance	
	Approval of annual Internal Audit and Counter Fraud Plan for 2022/23	Paula Clowes, Head of Assurance	

Annual Review of Internal Audit Charter

Paula Clowes, Head of Assurance

Annual skills and knowledge self-assessment

To determine where skills and knowledge need to be enhanced on an annual basis

Paul Turner, Director, Legal and Assurance

Arrangements for the closure of the 2021/2022 Accounts

Nicole Wood, Executive Director, Finance and Technology and
Christine Golding, Chief Accountant.

2021/2022 External Audit Plans for Essex County Council and the Essex Pension Fund

Nicole Wood, Executive Director, Finance and Technology and
Christine Golding, Chief Accountant.