



Essex County Council

Audit, Governance and Standards Committee

10:30	Monday, 13 December 2021	Council Chamber County Hall, Chelmsford, CM1 1QH
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For information about the meeting please ask for:

Andy Gribben, Senior Democratic Services Officer

Telephone: 033301 34565

Email: democratic.services@essex.gov.uk

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2	Minutes and Matters Arising	7 - 12
3	Limited Assurance Audit Update – IT Assets To receive an update relating to the Limited Assurance Audit - IT Assets from Melanie Hogger, Director, Technology Services and Councillor Christopher Whitbread, Cabinet Member for Finance, Resources and Corporate Affairs, Essex County Council	

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|---|---|---------|
| 4 | <p>Limited Assurance Update - Country Parks Stock Control</p> <p>To receive an update relating to the Limited Assurance - Country Parks Stock Control from Sam Kennedy, Director, Environment and Climate Action and Mark Rowley, Commercial Operations Manager, Essex County Council</p> | |
| 5 | <p>Internal Audit and Counter Fraud progress report</p> <p>To receive a report (AGS/22/21 and appendix) from Paula Clowes, Head of Assurance, Essex County Council</p> | 13 - 32 |
| 6 | <p>Further delay to completion of the external audit of the Council's 2020/21 Statement of Accounts</p> <p>To receive a report (AGS/23/21 and appendix) from the external auditor presented by Nicole Wood, Executive Director, Finance and Technology and Christine Golding, Chief Accountant, Essex County Council</p> | 33 - 38 |
| 7 | <p>National scheme for local auditor appointments</p> <p>To receive a report (AGS/24/21) from Christine Golding, Chief Accountant, Essex County Council</p> | 39 - 52 |
| 8 | <p>Work Programme</p> <p>To receive a report (AGS/25/21) from Paul Turner, Director, Legal and Assurance, Essex County Council</p> | 53 - 56 |
| 9 | <p>Date of the next meeting</p> <p>To note that the next scheduled meeting will be held on Monday 17 January 2022 at 10.30am at County Hall, Chelmsford and will be preceded by a private meeting for AGS members only</p> | |

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 L Barber
Councillor M Hedley
Councillor M Hoy
Councillor D King
Councillor L Mackenzie
Councillor A McGurran
Councillor A McQuiggan
Councillor M Platt
Councillor L Shaw
Councillor C Siddall
Mr Atta Ul Haque

Chairman

Independent member (non-voting)

Minutes of the meeting of the Audit, Governance and Standards Committee, held in the Council Chamber, County Hall, Chelmsford on Monday, 27 September 2021

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

Present:

Members:

Councillor L Barber	
Councillor A Hedley	Chairman
Councillor M Hoy	
Councillor D King	
Councillor A McGurran	
Councillor A McQuiggan	
Councillor M Platt	
Councillor L Shaw	
Councillor C Siddall	
Mr Atta Ul Haque	Independent member appointed to the committee

External Auditors:

Mr David Eagles	BDO LLP
Mr Barry Pryke	BDO LLP

ECC Officers:

Paul Ashworth	Place and Communities Lead Officer,
Paula Clowes	Head of Assurance
Christine Golding	Chief Accountant
Andy Gribben	Senior Democratic Services Officer (clerk to the meeting)
Justin Long	Senior Democratic Services Officer
Stephanie Mitchener	Director, Finance
Paul Turner	Director, Legal and Assurance (Monitoring Officer)

Also present:

Councillor S Barker

Welcome and Introduction

Councillor Hedley, the Chairman of the Audit, Governance and Standards Committee, welcomed those in attendance.

1. 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. No apologies had been received and
3. No declarations of interests were made.

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

2. Minutes and Matters Arising

The minutes of the meeting held on Monday 28 June 2021 were approved as a correct record and there were no matters arising.

3. Essex Travellers Unit Limited Assurance Audit Update

Presented by Paula Clowes, Head of Assurance, members of the committee received an oral update from Adrian Coggins, Head of Wellbeing and Community Health (who joined the meeting remotely) and Paul Ashworth, Place and Communities Lead Officer.

The main points made were that:

- The audit had arisen as there were identified high risks, but members were asked to note that the service had co-operated with the audit and actions arising would be closely monitored,
- the scope of the audit had been changed, at the request of the service, to look at the Traveller Sites owned and managed by the Council, as it had been suggested, this was where more challenges could be identified,
- the request had been for the audit to consider the best role of the Council in the management of the Traveller Sites, and any implications for ongoing investment of resources,
- there continue to be ongoing discussions with Districts who have a statutory duty relating to the provision of Gypsy and Traveller accommodation,
- over the summer there has been a programme of fixed wire electrical testing on facilities provided at the sites,
- testing for legionella, tree inspections, portable appliance testing, and health and safety inspections had also been undertaken,
- the level of residents' debt has risen, and there are new processes in place to address outstanding residents' debt together with assistance from finance and legal colleagues at the Council and
- work continues to be undertaken for the provision of improved health and education for residents' children.

The full oral update received, and the questions asked by members of the committee and the responses given by the officers may be found online on the [YouTube recording of the meeting](#).

4. Internal Audit and Counter Fraud Progress Report

The committee received a report (AGS/17/21 and appendices) from Paula Clowes, Head of Assurance. The report provided the members of the committee with the position as of 31 August 2021 regarding activity in relation to the 2021/22 Internal Audit and Counter Fraud Plan that had been approved by the Audit, Governance and Standards Committee in March 2021.

Members noted that the matters of particular note were that:

- no reports had received a 'No Assurance' rating during the period,
- four audits finalised since the June 2021 AGS Committee meeting had received a 'Limited Assurance' rating,
- as at 14 September 2021, four 'Major' recommendations were more than one month overdue and fifteen 'Moderate' recommendations were more than six months overdue compared to their target implementation dates and
- A full review of the 2021/2022 Internal Audit and Counter Fraud Plan had been conducted in September 2021 and no changes were required to be reported to, or approved by, the Committee.

The members of the committee asked questions. The questions asked and the responses may be found online on the [YouTube recording of the meeting](#).

Resolved:

That the progress in audit and counter fraud activity be noted.

5. Delay to Completion of the External Audit of the Council's 2020/2021 Statement of Accounts

The committee received a report (AGS/18/21 and appendix) from Nicole Wood, Executive Director for Corporate Services, and presented by Christine Golding, Chief Accountant, with additional information and clarifications from Mr David Eagles and Mr Barry Pryke, External Auditors, BDO LLP.

Mr David Eagles explained the background to the delay to the external audit of the Council's accounts. He stressed that the delay had not been in any way caused by the Council, as the Council had delivered a good quality Statement of Accounts and supporting working papers on time and were cooperating fully with the external audit team. He maintained that the delay was caused by factors outside of the external auditors or the council's control. He asked members to note that BDO LLP anticipated being able to present their Audit Completion Reports for the Council's and the Essex Pension Fund's financial statements to the Committee on 15 November 2021.

In response to questions from members, Mr Eagles explained that:

- all audits undertaken by BDO LLP were adequately resourced at the outset, but that delays in some audits made it necessary to divert resources to those audits, thereby causing delays in their wider work programme,

- He did not anticipate needing to levy an additional audit fee beyond the proposed fees quoted in the Audit Plans for the year, and
- He did not anticipate that the audit would be delayed further.

The Chairman of the committee asked that he be advised immediately if the audit is further delayed.

The discussion, the questions asked, and the responses may be found online on the [YouTube recording of the meeting](#).

Resolved:

The Committee noted the reasons for the delay to completion of the audit for 2020/21, as set out in the appended report.

6. Assurance Summary

The committee received report (AGS/19/21) from Paula Clowes, Head of Assurance and Christine Golding, Chief Accountant, that identified for members of the committee the sources of assurance that could be relied upon, pending completion by BDO LLP of their external audit of the Council and Essex Pension Fund Accounts for 2020/21.

The presentation of the report, the questions asked, and the responses may be found online on the [YouTube recording of the meeting](#).

Resolved:

The committee noted the sources of assurance listed in section four of the report.

7. Audit Committee Effectiveness Review – Annual Progress Update

The committee received report (AGS/20/21 and appendix) from Paul Turner, Director, Legal and Assurance that identified, following the AGS Effectiveness Review, where the skills and knowledge of the members of the committee may need to be improved and presented a Training and Development Plan.

It was noted that when training and development was delivered to the members of the committee it would be, where possible, by way of a remote meeting.

The presentation of the report, the questions asked, and the responses may be found online on the [YouTube recording of the meeting](#).

Resolved:

The committee approved the Training and Development Plan.

8. Work Programme

The committee received report (AGS/21/21) from Paul Turner, 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

That the report be noted.

9. Date of next meeting

The committee noted that the next scheduled meeting will be held on Monday 15 November 2021 at 10:30am at County Hall, Chelmsford and would be preceded by a private meeting for members of the committee only.

Chairman

Report title: Internal Audit and Counter Fraud Progress Report	
Report to: Audit, Governance and Standards Committee	
Report author: Paula Clowes, Head of Assurance	
Date: 13 December 2021	For: Note
Enquiries to: Paula Clowes, Head of Assurance paula.clowes@essex.gov.uk	
County Divisions affected: All Essex	

1. Everyone's Essex

- 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 2021/22 Internal Audit and Counter Fraud Plan (approved by the Audit, Governance and Standards Committee in March 2021). It reflects the situation as of 30 November 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 2021/22, 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 2021/22 Annual Governance Statement.
- 1.5 The full Internal Audit and Counter Fraud report is attached at Appendix A.

2. Recommendations

- 2.1 The progress in audit and counter fraud activity be noted.

3. Background

- 3.1 The full Internal Audit and Counter Fraud report is attached at appendix A. The following matters are of particular note:
 - No audits received a 'No Assurance' or 'Limited Assurance' rating during the period
 - Six audits have received a 'Satisfactory Assurance' rating.

- As at 30 November 2021 there were 3 Critical, 20 Major and 101 Moderate recommendations open. 54 recommendations have been implemented so far during 2021/22.
- The total number of fraud referrals received to date for the 2021/22 year is 151.
- During this period the work of the Counter Fraud team has resulted in the recovery of £48,257.54 and the prevented future loss of £9,855.00

4. Financial implications

- 4.1 There are no financial implications as the Internal Audit and Counter Fraud activity 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. This report seeks to update the Audit, Governance and Standards Committee on the activities of the Council's Internal Audit and Counter Fraud service for the purposes of providing further assurance.

6. Equality and Diversity Considerations

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

7 List of Appendices

Appendix A - Internal Audit and Counter Fraud Progress Report September – November 2021

8 List of Background papers

Internal Audit reports

Internal Audit and Counter Fraud Plan for 2021-22

Internal Audit Charter



Internal Audit & Counter Fraud Progress Report

September – November 2021

Introduction

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.

This report provides the Committee with the current position regarding activity in relation to the 2021/22 Internal Audit and Counter Fraud Plan (approved by the Audit, Governance and Standards Committee in March 2021). It reflects the situation as of 30 November 2021.

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.

The activity undertaken by Internal Audit and Counter Fraud in 2021/22, 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 2021/22 Annual Governance Statement.

Internal Audit Activity

Final Internal Audit Reports Issued

When Internal Audit issues a report it gives an overall assurance rating which is either 'Good' 'Satisfactory' 'Limited' or 'No' Assurance. Recommendations are graded as Critical, Major Moderate or Low. **Six** final reports have been issued since the September 2021 Audit, Governance and Standards Committee as detailed in the table below:

Assurance Rating	Audit Title	Recommendations Made			
		Critical	Major	Moderate	Low
Satisfactory	Early Years Funding	0	0	2	2
Satisfactory	Environment	0	0		
Satisfactory	VAT – input and output	0	0	1	2
Satisfactory	Essex Renewal Investment Fund	0	0	0	0
Satisfactory	Essex Construction Framework 2 Mobilisation	0	0	1	1
Satisfactory	Temporary and Interim Workers	0	0	3	

Full Internal Audit reports can be provided to Committee Members upon request.
Limited Assurance Reviews – Executive Summaries

There are no new Limited Assurance reviews this quarter.

Grant Claims

We have completed the following **grant claims**:

- BLUEPRINT – Interreg (European funded project led by Essex County Council to help local authorities move to a circular economy by the efficient use of resources when manufacturing products)

Project and Programme Support

As well as the above activity, Internal Audit have supported a number of significant programmes and initiatives during the quarter including the following.

The Corporate Systems Programme

ECC has recently been undergoing a Programme to replace The Corporate System (TCS) with Oracle Fusion, named locally as My Oracle. My Oracle includes Payroll, Financials (such as purchasing, invoicing, employee expenses, capital programme, budgeting and forecasting) and Human Capital Management (HCM).

My Oracle launched successfully as planned in October 2021 and has now entered the “early life support” stage. Lessons learned workshops are scheduled to take place with key stakeholders in November and December 2021 and a formal Programme Closure document will be produced by the business.

Internal Audit have been supporting the Programme throughout its lifecycle and advising on any significant control design changes and will continue to do so as these systems form a significant part of the overall assurance opinion the Chief Audit Executive is required to report on annually to this Committee.

Implementation of Internal Audit Recommendations

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.

As at 30 November 2021 there were 3 Critical, 20 Major and 101 Moderate recommendations open.

Progress on the implementation of recommendations is monitored by the Internal Audit service. So far, during 2021/22, the following recommendations have been implemented:

Risk Rating	Number Recorded as Implemented
Critical	0
Major	4
Moderate	50
Total:	54

The current assessment rationale for grading the priority of recommendations made is attached at Appendix 1.

Critical or Major recommendations which have not been implemented within the agreed timescale are reported to the Audit, Governance and Standards Committee.

The open Critical and Major recommendations as at 30 November 2021 are detailed in Appendix 2.

The three **Critical** recommendations relating to a prior year review of IT Disaster Recovery (DR) will soon be closed and new Major recommendations opened as a result of a recent IT DR review whereby Internal Audit have confirmed that the risks have been partially mitigated.

3 of the **Major** recommendations are more than one month overdue compared to their latest agreed implementation date

There are 21 **Moderate** recommendations more than six months overdue compared to their latest target date for implementation.

Changes to the 2021/2022 Internal Audit and Counter Fraud Plan

In September 2021 a full review of the 2021/2022 Internal Audit and Counter Fraud Flexible Plan was carried out including progress to date on the delivery of the Plan and no reviews have been deferred or cancelled with the exception of a small number of site visits to schools which are expected to be resumed shortly (these were described as “flexible” within the Plan) subject to any Covid-19 developments.

Counter Fraud Activity

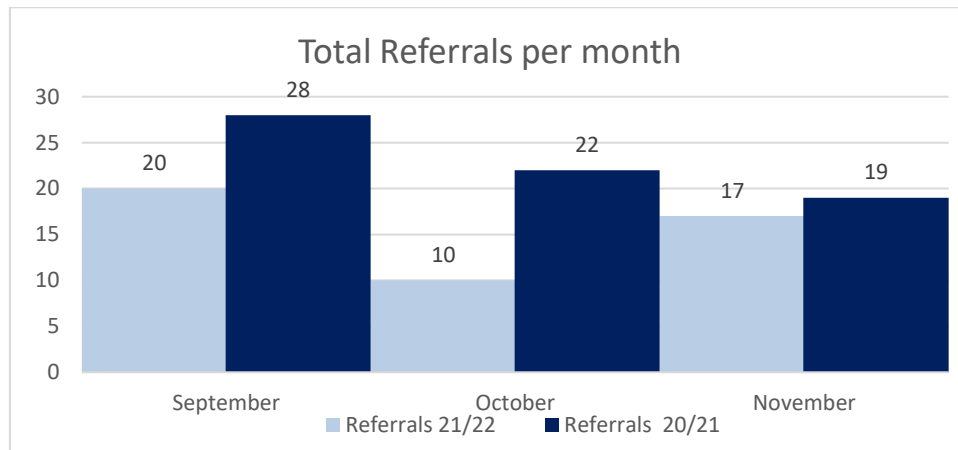
The Counter Fraud Team has a remit to prevent, detect and investigate fraud. This includes proactive work utilising data matching and analytical work. In some cases we will pursue sanction through the civil or criminal courts and where possible seek to recover lost/stolen monies.

Fraud Referrals

The total number of fraud referrals received to date for the 2021/22 year is **151**. The total referrals received during 2020/21 (1 April 2020 to 31 March 2021) amounted to

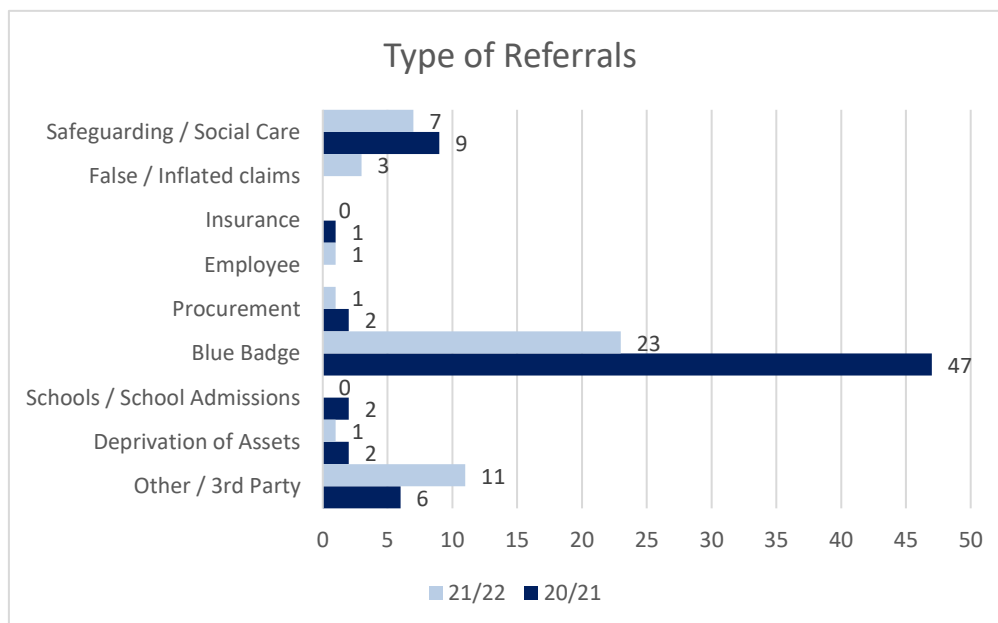
159. We have therefore seen an increase in the number of referrals throughout the course of the year, although slightly fewer referrals during the current reporting period, mainly in relation to blue badge misuse.

During the 3-month period 1 September 2021 to 30 November 2021, **47** referrals were received (including blue badge). The table below shows how this compares to the same reporting period last year (**69** referrals were received during the reporting period September to November last year).



Types of Referrals

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



Proactive Work

Data Matching

The Counter Fraud team includes a Data and Intelligence Specialist. Data matching/ analytical work has been completed during the 3-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.
- Adult social care direct payments – a review was undertaken to identify significant increases in the care packages over the last few months/ years. Testing is currently underway.

National Fraud Initiative Data Matching Exercise and NFI Fraud Hub

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. Returned matches have been reviewed and investigated as appropriate. The next submission will be in autumn 2022.

In addition to the mandatory data matching, the Counter Fraud Team subscribe to the NFI Fraud Hub. 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 were originally 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 / suspension. To date, savings have been recorded as **£64,695** in relation to pension payments that have been recovered.

Since September 2021, a further 290 matches have been forwarded to ECC Pensions for review.

Fraud Awareness Training

As at 2 November 2021 the percentage of staff that have completed the recently refreshed e-learning modules relating to the fraud modules are as follows:

- 27.8% - Anti-fraud and corruption

- 27.3% - Anti-bribery and money laundering.

These figures appear low because all ECC staff have been requested to re-visit and complete all corporate e-learning modules by the 31 December 2021.

Counter Fraud Outcomes

During the period 1 September 2021 to 30 November 2021, the following outcomes and sanctions have been achieved:

Outcomes	September- November 2020/2021	September – November 2021/2022
Prosecutions	0	0
Disciplinary Action	0	0
No Fraud Established	3	4
Phishing / Referred to third party	0	3
Blue Badge - Misuse Letter Sent	4	4
Blue Badge - Seized	2	6
ASC - Financial Recovery	2	2
ASC - PB terminated/reduced	2	1
Other - Financial Recovery	2	0
Other - Misuse Letters	0	0
Payment Prevented	0	0
Other*	0	3

*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 & support provided where potential misuse of personal budgets.
- Additional guidance provided in instances where weaknesses in the control framework have been identified.

Summary of Current Cases

The Counter Fraud Team are currently working with the Essex Legal Team in relation to two cases whereby suspected fraudulent grant claims have been submitted to Essex County Council for Covid related funding.

In both cases, care providers have submitted grant claims, supported by alleged fabricated invoices. In one case, the value amounts to approximately £60,000 and the other in excess of £200,000. In both cases, payment has been made by Essex County Council. The Counter Fraud Team are preparing cases for potential prosecution.

Financial Recoveries

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

	September to November	September to November
	2020/2021	2021/2022
ACTUAL - Monies Recovered	53,675.48	48,257.54
ACTUAL - Monies In Recovery	38,064.27	0.00
NOTIONAL - Future Losses Prevented	61,805.73	9,855.00
NOTIONAL - Estimated Losses	4,231.68	0.00
TOTAL	157,777.16	58,112.54





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).

Notional savings of £3,450 have also been identified as 6 expired blue badges have been taken out of circulation, each badge being attributed a value of £575 (figure determined by the Cabinet Office).

List of Appendices

- Appendix 1 Current assessment rationale for grading the priority of recommendations in Internal Audit reports.
- Appendix 2 Open Critical and Major Recommendations.

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

Risk rating	Assessment rationale
 Critical	<p>Critical and urgent in that failure to address the risk could lead to one or more of the following occurring:</p> <ul style="list-style-type: none"> 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	<p>Major in that failure to address the issue or progress the work would lead to one or more of the following occurring:</p> <ul style="list-style-type: none"> 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	<p>Moderate in that failure to address the issue or progress the work would lead to one or more of the following occurring:</p> <ul style="list-style-type: none"> 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	<p>Low in that failure to address the issue or progress the work would lead to one or more of the following occurring:</p> <ul style="list-style-type: none"> 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.
Satisfactory	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
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Appendix 2 Open Critical and Major Internal Audit Recommendations as at 29 November 2021

Audit Review Title	Recommendation	Original Target Date	Latest Target Date	Last Status Update	Owner	Risk Rating
IT Disaster Recovery (1617 ICT11)	Supplier Contracts and Responsibilities	31/01/18	31/12/21	9 November 2021: Awaiting outcome of Disaster Recovery (DR) Follow-up Audit to be published and this recommendation to be superseded. Technology Services are continuing with the work to implement DR services as part of the Cloud Migration programme. Audit Comment: Once the current IT DR audit is finalised it is expected that these Critical recommendations will be changed to Major to reflect the reduced risk to the organisation.	Head of Technology and Architecture, Corporate Services	Critical
	Scope The Council should formally define recovery requirements for all critical services and understand the technical end to end requirements, highlight any gaps in technical provision and articulate the resources and budget required to close them.	31/12/17	31/12/21			Critical
	Capability	31/01/18	31/12/21			Critical
Business Continuity (1516 COR12)	Third Party Dependencies Validation of key third party suppliers' business continuity arrangements	31/12/16	31/01/22	26 November 2021: We have refreshed our training material on business continuity and contingency for the Procurement Team and will be rolling that out to the team in the early New Year. Historically we have engaged with the BC team around the provisions they felt were required for BC within our procurement processes and there was a	Strategy and Assurance Lead, Procurement	Major

Audit Review Title	Recommendation	Original Target Date	Latest Target Date	Last Status Update	Owner	Risk Rating
				<p>detailed discussion around the tendering stage which resulted in an agreement that BC plans would not form part of the evaluation at tendering stage. However, given how much time has lapsed we are going to resurface this discussion with them – ideally next week to see if this position still stands.</p> <p>We also have timetabled a review of our contract compliance audit process – which picks up on BC plans in January 2022. This has been stood down due to the pandemic but we are now in a position to bring this work back on line.</p>		
Personal Budgets (Families) (Direct Payments) (1718 C2)	Monitoring and Review Implement a robust process to ensure all cases with Direct Payments are managed effectively, including monitoring of spending.	31/12/18	29/01/21	<p>22 April 2021: Adults have a Direct Payments monitoring team which is currently being reviewed- the plan is that they will commence monitoring childrens should the review be favourable.</p> <p>Audit Comment: Automated reminders are sent monthly for Recommendation Owners to provide status updates. In addition, Internal Audit have contacted the service separately in November 2021 to request the current position.</p>	Director Local Delivery, Children and Families	Major
Absence Management (1718 COR5)	Notifications to Line Managers/ Management Information on Compliance	30/09/18	31/10/21	<p>18 August 2021: Work on the Corporate Systems Programme continues, with delivery due in October 2021 and this need fed into requirements. In the meantime reporting of individuals reaching absence triggers is due to be included within monthly People Performance packs starting within Q2 2021/22.</p> <p>Audit Comment: An Internal Audit review of Absence Management is planned for 2022/23</p>	Head of People Insight and Technology	Major

Audit Review Title	Recommendation	Original Target Date	Latest Target Date	Last Status Update	Owner	Risk Rating
	Completeness of Return to Work Action	30/09/18	31/10/21	10 August 2021: The requirements for this have been built into the My Oracle design and are currently undergoing testing. These new features will form part of the My Oracle launch in October 2021. Audit Comment: An Internal Audit review of Absence Management is planned for 2022/23		Major
Major Incident Management (1920 CD3)	Improving the governance over major incidents through reporting	30/09/20	30/09/21	2 August 2021: Major Incidents are now reported through the Monthly TSLT Pack and the monthly FLT Pack, problem records logged and where possible Root Cause Analysis identified, more work is required, when resource allows, to ensure that the lessons are learnt from each MI to avoid re-occurrences.	Chief Operations Officer, Technology Services	Major
	Defining the critical council services and working with the Corporate Business Continuity team	31/07/20	31/12/21	19 October 2021: Business Continuity has a preliminary spreadsheet detailing the services that the business run, the technology that they are linked to, and desired recovery times. The spreadsheet is undergoing verification and may be updated in a few months. If in the future different target fix times were requested, this would constitute a change to the SLA and would need approval from higher within TS to proceed.		Major
Building Security (1920 PPH5)	Partner Organisation Leaver Process	31/08/19	14/05/21	12 May 2021: Some progress has been made in identifying sponsors for each partner organisation. Next steps are to: understand from Mitie the progress in terms of the proposal around how security cards could be set up for a limited amount of time; how the system could be enabled to send email reminders; and	Facilities Manager	Major

Audit Review Title	Recommendation	Original Target Date	Latest Target Date	Last Status Update	Owner	Risk Rating
				understand the potential for removing the paper security card forms.		
Review of Utility Invoice Processes (1920 PPH8)	Energy Profile Audits: In line with the contractual agreement all properties should have an Energy Profile Audit conducted every 12 months and be reported in line with the template provided in the contract	31/12/20		<p>4 May 2021: Review of Energy Profile Audits is being picked up as part of the wider review of the D2 Specification for Energy as well as ongoing discussions around reporting and streamlining the provision of management information systems to be able to provide this. ECC currently reviewing update from Mitie with further meetings planned to discuss/progress April/May 2021.</p> <p>Audit Comment: A follow up Internal Audit review of this area is planned in 2021/22 and a final terms of reference agreed.</p>	Head of Commercial Development	Major
Libraries – Stock Control and Fees and Charges (2021 CC2)	Stocktake Protocol Write, formally approve, circulate and embed into business as usual a protocol for undertaking stocktakes.	31/03/21		<p>18 August 2021: The stocktake protocol document has been prepared. It has been agreed that a full stock take will take place annually in December.</p> <p>Audit Comment: A follow up review is currently being undertaken and it is expected that this recommendation will be reduced to Moderate once the audit is finalised.</p>	Citizen Service Manager	Major
Income System (2021 FT25)	No evidence of back up arrangements and disaster recovery	30/11/21		<p>Audit Comment: Final report issued in September 2021.</p>	Supplier and Service Assurance Manager	Major
Accounts Receivable (2021 FT11AR)	Automated system functionality to enforce compliance with the Collection Strategy and prioritisation of activity	31/03/22			Service Manager, Finance	Major

Audit Review Title	Recommendation	Original Target Date	Latest Target Date	Last Status Update	Owner	Risk Rating
	Reliance on non-established posts	31/12/21				Major
IT Asset Management (2021 FT17)	Hardware Asset Audits	1/09/21	31/03/22	Audit Comment: Final report recently issued in September 2021. A follow up review will be undertaken in 2022.	Service Operations Manager	Major
	IT Infrastructure Planning	1/01/22	31/12/21			Major
	Leavers Not on The Corporate System (TCS) and Inactive Assets	1/09/22	31/12/21			Major
	IT Equipment Orders	1/07/21	31/12/21			Major
Country Parks (2021 PPH9)	Stocktake and Reconciliations	31/12/21		28 September 2021: Currently in recruitment phase for a new Food & Beverage Manager position to oversee all ECC run cafe outlets in Country Parks. Consideration will be given to a dedicated electronic point of sale system, as the data captured on very old till systems in cafe outlets is unsuitable for robust sales data and accurate reconciliation.	Commercial Operations Manager	Major
	Absence of a stock write off and stock discounting procedures	31/12/21 (not yet due)		28 September 2021: Currently in recruitment phase for new Food & Beverage Manager position. F&B Manager will be tasked with reviewing wastage procedures, including discounting and write offs. Current position is no discounting approved, which increases wastage and harms profitability of offers, but removes subjectivity and associated risks in absence of dedicated management oversight.		Major

Audit Review Title	Recommendation	Original Target Date	Latest Target Date	Last Status Update	Owner	Risk Rating
Essex Traveller Unit (2021 PPH6)	Site Management Plan	31/03/22		4 November 2021: Cllr Graham Butland has been engaged and briefed on the financial position of the service and long term maintenance requirements. A paper is being taken to PLT on the 4th November 2021 by Cllr Butland to discuss future options.	Wellbeing, Place and Communities Lead	Major
	Site Risk Assessments	31/10/21		17 November 2021: Facilities Management/ Mitie have been commissioned to assist in undertaking Statutory Inspections. Electrical testing has been undertaken and any remedial works being undertaken. Legionella testing has also been undertaken. Further inspections e.g. playgrounds and trees are being organised. The Service is working with Corporate Health and Safety who have visited several of the sites to assist in developing health and safety management plans.		Major

Report title: Further delay to completion of the external audit of the Council's 2020/21 Statement of Accounts	
Report to Audit, Governance and Standards Committee	
Report author: Nicole Wood, Executive Director, Corporate Services	
Date of meeting: 13 December 2021	For: Information
Enquiries to Nicole Wood, Executive Director, Corporate Services 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 agenda item is to present a report by the Council's External Auditor, BDO LLP (BDO) on a further delay to completion of the audit of the Council's Statement of Accounts for 2020/21 (comprising the work necessary to provide audit opinions on the financial statements of the Council and Essex Pension Fund and to provide commentary on the effectiveness of the systems in place to secure value for money in the Council's use of resources).

2. Recommendations

- 2.1 The Committee notes:
- The reasons for the further delay to completion of the audit for 2020/21, as set out in the appended report.
 - The intention to now present the Audit Completion Reports for 2020/21 for the Council's and Essex Pension Fund's financial statements to the Committee on **17 January 2022**, and to ask the Committee to approve the 2020/21 Statement of Accounts for publication on that date too.

3. Background

- 3.1 The Council is required by Regulation to:
- Produce draft accounts, and present them for external audit, by a specified date each year.
 - Make the draft Statement of Accounts available for a period of 30 working days, during which time the public have the right to raise objections, inspect the accounts and question the Local Auditor.
 - Formally publish its accounts by a specified date each year.

- 3.2 Statutory regulations require these activities to be undertaken in accordance with the following timetable for the 2020/21 financial year:
- Produce the draft Statement of Accounts and present them for external audit by **31 July**.
 - Make the draft accounts available for public inspection for a period of 30 working days, to commence no later than **1 August**.
 - Formally publish the accounts by **30 September**.
- 3.3 The draft (unaudited) Statement of Accounts for 2020/21 was presented to the Audit, Governance and Standards Committee on **28 June** (AGS/13/21), one month ahead of this year's statutory deadline for production of the draft accounts. The Section 151 Officer certified the draft Statement of Accounts on **30 June** and released the Accounts for external audit and for public inspection on **1 July**.
- 3.4 BDO had initially indicated their intention to report the results of their audit work to the Committee on **27 September 2021**, thereby enabling the Audit, Governance and Standards Committee to approve the Statement of Accounts for publication by the statutory deadline of **30 September 2021**. However, BDO advised the Council in mid-July that it would no longer be feasible to complete the audit by this date.
- 3.5 BDO advised the Committee, on **27 September 2021 (AGS/18/21)**, that they anticipated being able to present their Audit Completion Reports for the Council's and the Essex Pension Fund's financial statements to the Committee on **15 November 2021**. This did not prove possible, and the Committee meeting was rescheduled to **13 December 2021** (in line with BDO's revised expectations for completion of the audit).
- 3.6 For the reasons noted in the attached report from BDO, it has not proved possible to finalise the audit in time to report the results to the Committee on **13 December 2021**. As noted in the auditor's report, the audit work is nearing completion now though. It is therefore now intended to present the Audit Completion Reports for the Council's and Essex Pension Fund's financial statements to the Committee on **17 January 2022**, at which stage the Committee will also be asked to approve the 2020/21 Statement of Accounts for publication.
- 3.7 The Auditor's **Annual Report**, which will include commentary on the Council's arrangements to secure value for money in the use of its resources, will be issued within three months of issuing the opinions on the Council's and Essex Pension Fund's financial statements.

4. Policy context and Outcomes Framework

- 4.1 The Statement of Accounts for 2020/21 summarises the financial performance and financial position for the Council for the year ending 31st March 2021. As such, the Accounts provide a financial representation of activities during 2020/21 against the Organisation Strategy.

5. Financial Implications

- 5.1 It has been necessary to secure ongoing access to the former 'TCS' corporate systems for the purpose of seeing out the 2020/21 audit (at a cost of **£38,000** for January 2022). TCS was due to be de-commissioned following 'go live' of the 'My Oracle' Corporate System in October 2021.
- 5.2 From the Council's perspective, it would be difficult to understand why a delay in completion of its audit, for reasons outside of the Council's control, could justify an increase in audit fees. Consequently, any proposal by BDO to vary the audit fee for their 2020/21 audit would be subject to careful scrutiny.

6. Legal Implications

- 7.1 The Council is required to produce annual accounts in accordance with the Accounts and Audit Regulations 2015 as currently amended by the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020. The Council is also required to produce an annual governance statement.

7. Staffing and other resource implications

- 7.1 It has proved challenging to support the external audit over such a prolonged period, not least because it has now extended into the time when other finance related activities need to take priority (such as work associated with setting the annual budget and planning for closure of the 2021/22 accounts).
- 7.2 Officers have nevertheless continued to support the audit process, and every effort will be made to ensure that there is no further delay to completion of the 2020/21 audit.

8. List of appendices

- 8.1 **Appendix A** – Report by BDO LLP on the status of the audit and the reasons for a further delay to completion of the audit of the Council's 2020/21 Statement of Accounts.

9. List of Background Papers

- 9.1 None

Status of the audit, and the reasons for the further delay.

On 1 December 2021 it was necessary to take the decision to defer presentation of the Council's Statement of Accounts for final approval, along with the Audit Completion Reports for the Council and Group and also the Pension Fund.

The two key components of this decision are:

- The point at which no further adjustments to the Statement of Accounts (other than minor edits of narrative) had not been reached. Delayed technical review findings had only been received on 30 November 2021 and the Chief Accountant did not then have sufficient time to work through the matters arising before the Committee papers circulation deadline at the end of 1 December 2021.
- Whilst the Audit Completion Report for the Pension Fund was issued in draft for discussion in accordance with the agreed timetable and was finalised in time for Committee papers distribution, the Audit Completion Report for the Council and Group was not and, at the point of drafting this update paper, was still not ready for issuing in draft for discussion and is therefore not finalised.

Technical review of the Statement of Accounts

The timing of this was later than originally planned partly due to Partner availability linked to Covid-delayed NHS audits and the impacts of implementing the new Code of Audit Practice approach to Use of Resources work and reporting, but also by technical team illness.

Unfortunately, by the time it became clear that the illness was not short term, identification and scheduling of a replacement reviewer only allowed for this to be completed in week commencing 29 November 2021.

As noted above, because of the lateness of the review and that the matters arising were not all only relating to minor narrative issues, the Chief Accountant did not then have sufficient time to respond to all issues and make necessary changes to the Statement of Accounts by the deadline set for Committee papers distribution. However, as at the point of drafting of this update paper, good progress has been made in collating responses to the review points during 1 December 2021, with a feedback meeting to discuss full responses on all of the points on 2 December 2021. Consequently, we would expect an updated Statement of Accounts to be finalised by 13 December 2021, and we will provide the latest position statement to the Committee.

Audit Completion Report for the Council and Group

Completion of the ACR was linked to achieving a sufficiently concluded position on the technical review and on audit work on valuations and income/grants to enable a meaningful narrative to be drafted, rather than what would effectively have been a progress report. The timing of both aspects was such that we could not complete the draft and issue for comments to the timeline that would have enabled finalising by end of 1 December 2021. More detail on relevant audit progress is set out below.

Status of the audit

As at 2 December 2021, the following matters remain in progress. We will provide a further update as at 13 December 2021 to the Committee:

- Specific matters which still need to be completed/concluded on:
 - Completion of land/building/investment property valuation procedures and review of response to consultation with our valuations team (covering methodologies and assumptions). The remaining work is concluding (i.e. we are virtually complete) and finalising documentation, rather than primary testing.
 - Clearance of remaining queries on evidence we have been provided on income and specific revenue grants, which we expect to clear on 3 December 2021
 - Receipt of documentation for a particular grant and enquiries of the legal team regarding contingencies and commitments
 - Receipt of third party confirmation of balances for one investment and one school bank account
 - Completion of expenditure cut off testing for October 2021

- Review and completion procedures:
 - Completion of partner, manager and quality control review of the audit file and clearance of review points
 - Clearance of points arising from the technical review of the unaudited statement of accounts (as referred to above) and review of final version of statement of accounts to ensure arithmetical accuracy, internal consistency and that agreed disclosure amendments have been correctly processed
 - Subsequent events review
 - Receipt of Letter of Representation, as approved and signed post presentation of Audit Completion Reports to Committee
- Misstatements
 - No material misstatements identified to date
 - One unadjusted misstatement of £9.7 million which affects the surplus on provision of services and has been agreed with the Council
 - Two adjusted misstatements - both classification issues in the top half of the balance sheet so no impact on bottom line

The summary of the above is that we are virtually complete on concluding fieldwork, but that the timing of this did not quite match the reporting and Committee papers distribution deadlines set.

Conclusion

The 2021 audit has been challenging to deliver, with issues including reduced interim work that we were able to deliver, illness, the longer-term impacts of Covid and remote working, and a continuance of the comparatively high level of assets valuations variances outside of tolerable variance parameters requiring further investigation. Council officers have, throughout, provided good quality working papers and support to the team.

We are, needless to say, immensely disappointed and frustrated to not be able to present our Audit Completion Reports and the outcome of the audits to the Committee on 13 December 2021 as agreed, recognising that this date was itself a deferral of the original timetable.

As noted above, we will provide a further update to the Committee on 13 December 2021, by which time we would expect the Statement of Accounts updates to be complete and therefore provide assurance to the Committee that there will be no further days in completing the audit.

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

2 December 2021

Report title: National scheme for local auditor appointments	
Report to Audit, Governance and Standards Committee	
Report author: Nicole Wood, Executive Director, Corporate Services	
Date of meeting: 13 December 2021	For: Decision
Enquiries to Nicole Wood, Executive Director, Corporate Services (nicole.wood@essex.gov.uk), Paul Turner, Director, Legal and Assurance (paul.turner@essex.gov.uk) or Christine Golding, Chief Accountant (christine.golding@essex.gov.uk)	
Divisions affected: All Essex	

1. Purpose of report

- 1.1 Public Sector Audit Appointments Limited (PSAA) is the body responsible for appointing an external auditor for each local authority that opts into its national appointing scheme. The PSAA has begun the process of retendering for external auditors for local authorities in England, for contracts due to start from **1 April 2023**. Hence, the purpose of this report is to consider whether the Council should opt into the PSAA's appointing scheme for external audit contracts due to start from **1 April 2023** or seek to procure its own external auditor from this date.

2. Recommendations

- 2.1 That the Committee recommends to Full Council that we opt into the PSAA's national procurement arrangement for auditor appointments for contracts due to start from **1 April 2023** and covering the audits of accounts for the financial years 2023/24 to 2027/28.

3. Background

- 3.1 The Council is required, in accordance with section 4 of the Local Audit and Accountability Act 2014 (the 2014 Act), to have its annual accounts audited by an auditor appointed in accordance with the provisions of the 2014 Act.
- 3.2 The Council has the option to:
- arrange its own procurement and make an auditor appointment itself or in conjunction with other bodies; or
 - join and take advantage of a national collective scheme for each appointing period.

- 3.3 Public Sector Audit Appointments Limited (PSAA) was designated by the Secretary of State in 2016 as an appointing person for principal local government and police bodies for audits, under the provisions of the 2014 Act and the Local Audit (Appointing Person) Regulations 2015 (the Regulations).
- 3.4 Acting in accordance with the role of appointing person, the PSAA is responsible for appointing an auditor and setting scales of fees for the duration of an appointing period for eligible bodies that choose to opt into its national scheme.
- 3.5 The Regulations require the appointing person to set the duration of each appointing period; the maximum duration is five years. The first appointing period spans the five consecutive financial years commencing 1 April 2018. It covers the audits of accounts for the financial years 2018/19 to 2022/23.
- 3.6 The second appointing period will span the five consecutive financial years commencing 1 April 2023. It will cover the audits of accounts for the financial years 2023/24 to 2027/28.
- 3.7 The PSAA has begun the process of retendering for external auditors for local authorities in England, for contracts due to start from 1 April 2023. The Council will therefore need to decide whether to opt into the PSAA's national procurement arrangement for the second appointing period, or whether to procure its own external auditor from this date.
- 3.8 Legislation requires a resolution of Full Council if the Council wishes to opt into the national procurement arrangement. The deadline for this decision is **11 March 2022**. Failure to make a formal decision by this date is deemed to be a decision by the Council to procure its own external auditor.

4. Procuring our own external auditor

- 4.1 The Council can decide not to opt into the national procurement arrangement and make its own auditor appointment instead. However, in order for the Council to undertake the appointment of an external auditor, it would need to establish an **independent auditor panel** to advise on the selection and appointment of an auditor.
- 4.2 The auditor panel must be one of the following:
- A panel appointed solely for the Council.
 - A panel set up with other local authorities.
 - An existing committee or sub-committee of the Council which has been determined to be an auditor panel (subject to compliance with the other provisions and regulations related to auditor panels).
 - An auditor panel of another local authority that has agreed to act as an auditor panel for the Council.

The minimum number of members that an auditor panel must have is three.

4.3 Most of the members of the auditor panel, including the Chairperson, must be **independent** of the Council. The main areas through which independence may be impaired are where the panel member:

- Has been a member or officer of the Council, or another local authority connected to the Council, within the last five years.
- Has been an officer or employee of an entity connected with the Council within the last five years.
- Is party to a contract with the Council, either as an individual or through an entity with which the individual has a beneficial interest.
- Has been an auditor or an employee of a prospective auditor of the Council within the last five years.
- Has a relative or close friend of any of the above.

These requirements may, in practice, make it difficult to find people able and willing to serve on an auditor panel.

4.4 The role of an independent auditor panel would be to advise the Council on:

- The selection and appointment of an auditor.
- Whether the Council should adopt a policy on obtaining non-audit services from the auditor, including the contents of such a policy.
- Any proposal by the Council to enter into a liability limitation agreement.
- Maintaining an independent relationship with its auditor.
- The outcome of any investigation of an auditor's resignation from office, if this occurs, or on any proposal to remove a local auditor from office.

4.5 Whilst the appointment of an external auditor would be the Council's responsibility, the Council must take account of the advice of its auditor panel.

4.6 Once the auditor panel has produced its advice on the selection and appointment of an auditor, the Council must publish a notice, within 28 days of the appointment being made, that includes information such as:

- the name of the auditor.
- the length of the appointment.
- the advice, or a summary of the advice, from the auditor panel.
- Where it has not accepted that advice, the reasons why not.

This notice must be published on the Council's website or in another suitable format.

5. National procurement arrangement

- 5.1 The local audit market was relatively stable when the PSAA ran the procurement for the first appointing period. **98%** of authorities opted into the national scheme. As a result of competitive bids from audit firms, the PSAA was able to enter into long term contracts with five audit firms, and to make auditor appointments to all opted-in bodies.
- 5.2 The audit landscape has changed significantly since the PSAA awarded these contracts. A drive to deliver improvements in audit quality started to impact on audit firms' ability to complete all their local authority audits for 2018/19 by the target date for publication of audited accounts (**31 July**) - a problem that was exacerbated by growing recruitment and retention challenges and increasing levels of technical challenges as local authorities explored innovative ways of delivering services to achieve savings.
- 5.3 The 2019/20 audits presented greater challenges. Even with the benefit of an extended timeline for publication of audited accounts, only **45%** of audits were completed by the target date of **30 November** (*compared to 57% of 2018/19 audits being completed by the target date for completion of 31 July*). The situation has deteriorated further in 2020/21, with only **9%** of audits being completed by the target publication date of **30 September**.
- 5.4 This paints a picture of an audit industry under enormous pressure, and of a local audit system which is experiencing considerable strain and instability.
- 5.5 The PSAA's national appointing scheme could be the best option to enable the Council to secure audit services in a very challenging market. The PSAA's national scheme offers a range of benefits for its members, including:
- Transparent and independent auditor appointment via a third party, avoiding the necessity for local bodies to establish an auditor panel and undertake an auditor procurement.
 - Ongoing management of any independence issues which may arise.
 - Access to a dedicated team with significant experience of working within the context of the relevant regulations to appoint auditors, managing contracts with audit firms and setting and determining audit fees.
 - Collective savings for the sector through undertaking one major procurement as opposed to a multiplicity of smaller procurements.
 - A sector led collaborative scheme supported by an established advisory panel of sector representatives to help inform the design and operation of the scheme.
 - Concerted efforts to develop a more sustainable local audit market.

- 5.6 The PSAA is staffed by a team with significant experience of working within the context of the regulations to appoint auditors, managing contracts with audit firms and setting and determining audit fees. All of these roles are undertaken with a detailed, ongoing and up to date understanding of the distinctive context and challenges facing the sector.

6. Other considerations

- 6.1 The scope of a local audit is fixed. It is determined by the Code of Audit Practice (currently published by the National Audit Office), the format of the financial statements (specified by CIPFA / LASAAC) and the application of auditing standards regulated by the Financial Reporting Council. These factors apply to all local authorities, irrespective of the route chosen for appointing an auditor.
- 6.2 It is also worth noting that, in accordance with the 2014 Act, audit firms must be registered with the Institute of Chartered Accountants in England and Wales (ICAEW), and that there are currently fewer than ten firms registered to carry out local audit work.
- 6.3 This means that the Council would have little or no influence over what it is procuring. Hence, there appear to be no obvious benefits to the Council choosing to make its own separate arrangements for appointing an external auditor.

7. Policy context and Outcomes Framework

- 7.1 The external audit of the Council's annual statement of accounts, and of its arrangements to secure value for money in the use of resources, provides assurance that taxpayers' money has been well managed and properly accounted for; this is one of the cornerstones of public accountability.

8. Financial Implications

- 8.1 Whichever method of auditor appointment is chosen, the Council will need to pay fees to its appointed auditor.
- 8.2 The annual audit fees currently payable by the Council are as follows:

Annual audit fees	Essex County Council	Essex Pension Fund
PSAA scale fee	£126,265	£24,075
Additional audit fees		
• Audit of valuations (non-current assets and pension liabilities) and group accounts	£8,155	-
• Audit of judgemental components of the Pension Fund	-	£3,925
Sub total	£134,420	£28,000
• New Use of Resources approach	£TBC	-
Total audit fees	£TBC	

In addition, extra fees are charged on an ad-hoc basis, reflecting circumstances specific to particular audits. For example, in relation to the audit of the Pension Fund triennial actuarial data and to reflect the impact of Covid-19 remote working etc.

- 8.3 It is possible that the scale fees payable from 2023/24 will be higher than the current scale fees. Sir Tony Redmond (who was commissioned by the Secretary of State to undertake an independent review into the oversight of local audit and the transparency of local authority financial reporting) has suggested that fee increases of circa **25%** may be required to enable audit firms to meet current quality standards.
- 8.4 Whilst it is possible that, if the Council conducts its own procurement, it may be able to negotiate a lower audit fee than the scale fees determined by the PSAA, these savings may not be sufficient to cover the costs associated with conducting a separate procurement and constituting and maintaining an independent auditor panel.

9. Legal Implications

- 9.1 The Local Audit and Accountability Act 2014 sets the framework for audit of the Council's accounts. This requires the Council to either appoint its own auditor, following the advice of an independent auditor panel, or to opt into a central system where the auditor will be appointed by Public Sector Auditor Appointments Ltd (as the designated 'appointing person').
- 9.2 The Council will need to ensure that an auditor has been appointed by **31 December 2022**. This could be by 'opting in' to the PSAA's national procurement arrangement for auditor appointments or by undertaking its own procurement advised by an independent Auditor Panel.
- 9.3 If the Council accepts the PSAA's invitation, it will become an 'opted in authority' for the period specified in the invitation and it cannot appoint its own auditor during that period, although the central appointing body would be required by law to consult the Council before appointing an auditor.
- 9.4 Audit fees for 'opted in authorities' are calculated using a scale set by the central appointing person after consulting 'opted in authorities' and firms of accountants. Opted in authorities must pay the scale fee, together with any extra charges that apply.
- 9.5 Under regulation 19 of the Local Audit (Appointing Persons) Regulations 2015 the decision to become an opted in authority must be taken at a meeting of the Full Council.

10. Staffing and other resource implications

- 10.1 If the Council decides to conduct its own auditor procurement, then officers will need to:
- Undertake the procurement process and subsequent contract management.
 - Assist with recruitment of independent members to an auditor panel.
 - Organise Panel meetings.
- 10.2 None of this additional capacity will be required if the Council opts into the PSAA national procurement arrangement and does not appoint an auditor panel.

11. List of Background Papers

- 11.1 Email from the Local Government Association dated 23 September 2021 (**appended**).
- 11.2 PSAA Prospectus: The national scheme for local auditor appointments:
<https://www.psaa.co.uk/wp-content/uploads/2021/11/Prospectus-2023-and-beyond-FINAL.pdf>

Appendix - Email from the Local Government Association

From the Chairman of the Association
Cllr James Jamieson



**To: Mayors/Leaders/Chief Executives/Chief Finance Officers
of English Principal Councils**

23 September 2021

Dear Gavin Jones,

Retender of External Audit Contracts

I am writing because your council must shortly make a decision whether to opt into the national arrangement for the procurement of external audit or procure external audit for itself, and to set out the LGA's view on that decision.

In most councils this matter will be considered first in detail by the Audit Committee. You will therefore no doubt wish to pass on a copy of this letter and the more detailed attachment to the colleague who chairs the relevant committee.

Legislation requires a resolution of Full Council if a local authority wishes to opt into the national arrangement. The practical deadline for this decision is 11th March 2022. As this is a decision for the Full Council, I wanted to ensure that you had sight of the letter that has been sent to audit and finance colleagues and that you are aware of the crucial issues to be considered.

The way external audit has operated over the last couple of years has been extremely disappointing. This has led to many audits being delayed and dozens of audits remain uncompleted from 2019/20. Dealing with these issues is not a quick or easy fix.

Nevertheless, the LGA's view is that the national framework remains the best option for councils. There are many reasons for favouring the national arrangements and we think those reasons have become more compelling since 2016/17 when councils were last asked to make this choice.

We believe that in a suppliers' market it is imperative that councils act together to have the best chance of influencing the market and for nationally coordinated efforts to improve the supply side of the market to be effective.

The information attached goes into more detail about the background to this decision. My officers will be happy to answer any questions you may have. Please

contact Alan Finch (alan.finch@local.gov.uk) if you have any issues you would like to raise.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'James Jamieson', written in a cursive style.

Cllr James Jamieson
Chairman

cc: Chief Executive
Chief Finance Officer

RETENDER OF EXTERNAL AUDIT CONTRACTS

Information from the LGA for those charged with governance

The process for retendering for external audit in local authorities in England, for contracts due to start from 2023/24, is now underway and shortly the council will need to decide whether to procure its own external auditor or opt into the national procurement framework.

Legislation requires a resolution of Full Council if a local authority wishes to opt into the national arrangement. The deadline for this decision is the 11th March 2022. If the council doesn't make such a decision, the legislation assumes that the council will procure its own external audit, with all the extra work and administration that comes with it.

The national framework remains the best option councils can choose. There are many reasons for favouring the national arrangements and we think those reasons have become more compelling since 2016/17 when councils were last asked to make this choice.

The way external audit has operated over the last couple of years has been extremely disappointing. A lack of capacity in the audit market has been exacerbated by increased requirements placed on external auditors by the audit regulator. There is also a limited number of firms in the market and too few qualified auditors employed by those firms. This has led to a situation where many audits have been delayed and dozens of audit opinions remain outstanding from 2019/20 and 2020/21. Auditors have also been asking for additional fees to pay for extra work.

As the client in the contract, a council has little influence over what it is procuring. The nature and scope of the audit is determined by codes of practice and guidance and the regulation of the audit market is undertaken by a third party, currently the Financial Reporting Council. Essentially, councils find themselves operating in what amounts to a suppliers' market and the client's interest is at risk of being ignored unless we act together.

Everyone, even existing suppliers, agrees that the supply side of the market needs to be expanded, which includes encouraging bids from challenger firms. Public Sector Audit Appointments Ltd (PSAA), the body nominated by the Government to run the national arrangements, has suggested various ways this could be done, but these initiatives are much more likely to be successful if a large number councils sign up to the national scheme.

It is therefore vital that councils coordinate their efforts to ensure that the client voice is heard loud and clear. The best way of doing this across the country is to sign up to the national arrangement.

To summarise, the same arguments apply as at the time of the last procurement:

- A council procuring its own auditor or procuring through a joint arrangement means setting up an Audit Panel with an independent chair to oversee the procurement and running of the contract.
- The procurement process is an administrative burden on council staff already struggling for capacity. Contract management is an ongoing burden.
- Procuring through the appointing person (PSAA) makes it easier for councils to demonstrate independence of process.
- Procuring for yourself provides no obvious benefits:
 - The service being procured is defined by statute and by accounting and auditing codes
 - Possible suppliers are limited to the small pool of registered firms with accredited Key Audit Partners (KAP).
 - Since the last procurement it is now more obvious than ever that we are in a 'suppliers' market' in which the audit firms hold most of the levers.
- PSAA has now built up considerable expertise and has been working hard to address the issue that have arisen with the contracts over the last couple of years:
 - PSAA has the experience of the first national contract. The Government's selection of PSAA as the appointing person for a second cycle reflects MHCLG's confidence in them as an organisation.
 - PSAA has commissioned high quality research to understand the nature of the audit market.
 - It has worked very closely with MHCLG to enable the government to consult on changes to the fees setting arrangements to deal better with variations at national and local level, hopefully resulting in more flexible and appropriate Regulations later this year

Councils need to consider their options. we have therefore attached a list of Frequently Asked Questions relating to this issue which we hope will be useful to you in reaching this important decision.

When the LGA set up PSAA in 2015, we did so with the interests of the local government sector in mind. We continue to believe that the national arrangement is the best way for councils to influence a particularly difficult market.

If you have any questions on these issues please contact Alan Finch, Principal Adviser (Finance) (alan.finch@local.gov.uk).

PROCUREMENT OF EXTERNAL AUDIT from financial year 2023/24

FREQUENTLY ASKED QUESTIONS

“Were prices set too low in the current contract?”

It is clear that firms did submit bids that reflected what seemed at the time to be very stable market conditions. Unfortunately, a series of financial collapses in the private sector have since created a very different climate and resulted in a whole series of new regulatory pressures. It is very likely that firms thought they could make savings as a result of the new timetable, essentially finishing the accounts audits by the end of July each year. Of course, that is not what has happened.

The Government opened up the market principally on the argument that costs would reduce, and views were mixed in the sector when the first contract was being let. Some councils wanted more savings and some were worried about reduced standards.

“Has the current contract helped cause these issues?”

Since the current contract is based around the Code of Audit Practice and the local government accounting code, this is unlikely. The first year of the new contract coincided with the introduction of new standards and with the emergence of some difficult audit issues such as the [McCloud judgement](#) (a legal case which affected the valuation of pension liabilities). The second year was affected by COVID-19. This laid bare the lack of capacity in the supplier side of the market and led to considerable delays. It is hard to see how the contract could have pre-empted this, but now we are clearer about the level of uncertainty in the system, the next contract can adjust for it.

“If we let our own contract, could we have more influence over auditors?”

No. The auditors are required to be independent and are bound by the Codes and need to deliver to them in line with the regulator’s expectations or face action under the regulatory framework.

As far as delays in audits is concerned, auditors are required to allocate resources according to risk and councils that procure for themselves will find themselves in the same queue as those within the national arrangement.

“If we let our own contract, can we get the auditors to prioritise our audit over others?”

Very unlikely. Auditors are running at full capacity and have to deploy resources according to their assessment of audit risks in accordance with professional standards. It is very unlikely that auditors could give preference to some clients rather than others even if they wanted to.

“Didn’t we used to get more from our auditors?”

Yes we did. For example, auditors were often prepared to provide training to audit committees on a pro-bono basis. The fact that they used to be with us for most of the year meant officers could develop professional working relationships with auditors and they understood us better, within the boundaries required of their independent status. Auditors no longer have the capacity to do extra work and the light shone on

audit independence in other sectors of the economy has reinforced the rules on the way auditors and councils work together.

“Under the national framework we have had to negotiate our own fee variations. Will that continue to be the case?”

Unfortunately, virtually all councils have had to engage in discussions with auditors about fee variations linked to new regulatory requirements and, of course, the challenges of COVID-19. SAA has worked hard with MHCLG to enable the recent consultation on changes to the fee setting regime, and the resulting regulatory change will bring scope for more issues to be settled at a national level in future.

“Can we band together in joint procurements to get most of the benefits of not going it alone?”

We understand that this is lawful. However, joint procurement partners would not be part of PSAA's efforts on behalf of the sector to increase the number of firms competing in the market, which will therefore be less likely to succeed.

At best, joint procurement spreads the pain of procuring over a larger number of councils and at worst it introduces a new layer of bureaucracy, because someone is going to have to take the lead and bring all the members of the consortium along. It's not altogether clear to us why a joint procurement would be better than the national contract, especially as the consortium would then have to manage the contract throughout its life (for example, the implications of changes of audit scope).



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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 8**AGS/25/21**

Meeting	Topic	Author	Notes
13 December 2021 (postponed from 15 November 2021)	Limited Assurance Audit Update – IT Assets Melanie Hogger and Cllr C Whitbread	Paula Clowes, Head of Assurance	
	Limited Assurance Audit Update – Country Parks Stock Control Sam Kennedy and Mark Rowley	Paula Clowes, Head of Assurance	
	Internal Audit and Counter Fraud progress report	Paula Clowes, Head of Assurance	
	Further delay to completion of the external audit of the Council's 2020/21 Statement of Accounts	To be presented by Nicole Wood, Executive Director, Finance and Technology, and Christine Golding, Chief Accountant, Essex County Council	
	National scheme for local auditor appointments	Christine Golding, Chief Accountant, Essex County Council	

Meeting	Topic	Author	Notes
17 January 2022	Internal Audit and Counter Fraud progress report	Paula Clowes, Head of Assurance	
	Consideration of Adoption of LGA Model Code of Conduct by ECC	Paul Turner, Director, Legal and Assurance	
	2020/2021 Audit Completion Report for Essex County Council To receive a report from the external auditor	To be presented by Nicole Wood, Executive Director, Finance and Technology, Essex County Council and Christine Golding, Chief Accountant, Essex County Council	
	2020/2021 Audit Completion Report for the Essex Pension Fund To receive a report from the external auditor	To be presented by Nicole Wood, Executive Director, Finance and Technology, Essex County Council and Christine Golding, Chief Accountant, Essex County Council	
	Statement of Accounts 2020/2021 and the Annual Governance Statement	To receive a report from Nicole Wood, Executive Director, Finance and Technology, Essex	

County Council, Paul Turner, Director, Legal and Assurance, Essex County Council and Christine Golding, Chief Accountant, Essex County Council

Annual Audit Letter – 2020/21

BDO LLP – external auditors

To formally present the External Auditor's Annual Audit Letter for the year ending 31 March 2021

Proposed updates to the Council's Financial Regulations and Scheme of Delegation for Financial Management

Christine Golding, Chief Accountant, Essex County Council

To consult the Committee on proposed changes to financial procedure rules before they are presented to Full Council

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
Effectiveness Review	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.
External Auditor's Annual Report	BDO LLP – external auditors