Essex County Council

Audit, Governance and Standards Committee

10:30	**Monday, 21 March 2022**	**Council Chamber County Hall, Chelmsford, CM1 1QH**

For information about the meeting please ask for:
Justin Long, Senior Democratic Services Officer
Telephone: 033301 34565
Email: democratic.services@essex.gov.uk

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

		Pages
1	**Membership, Apologies, Substitutions and Declarations of Interest**	5 - 6
2	**Minutes and Matters Arising** To approve as a correct record the minutes of the meeting held on 31 January 2022 and identify any matters arising	7 - 10
3	**Internal Audit and Counter Fraud Progress Report** To receive a report (AGS/04/22 and appendix) from Paula Clowes, Head of Assurance, Essex County Council	11 - 30

4	**Risk Management Strategy** To receive a report (AGS/05/22 and appendix) from Paula Clowes, Head of Assurance, Essex County Council	**31 - 40**
5	**Approval of Annual Internal Audit and Counter Fraud Plan for 2022/23** To receive a report (AGS/06/22 and appendix) from Paula Clowes, Head of Assurance, Essex County Council	**41 - 72**
6	**Internal Audit Charter** To receive a report (AGS/07/22 and appendix) from Paula Clowes, Head of Assurance, Essex County Council	**73 - 86**
7	**LGA Model Code of Conduct** To receive a report (AGS/08/21 and appendix) from Paul Turner, Director, Legal and Assurance and Monitoring Officer, Essex County Council	**87 - 106**
8	**Regulation of Investigatory Powers Act 2000: Review of Activity March 2022** To receive a report (AGS/09/22) from Paul Turner, Director, Legal and Assurance, Essex County Council	**107 - 110**
9	**Closure of Accounts 2021/22** To receive a report (AGS/10/22) from Nicole Wood, Executive Director Corporate Services, Essex County Council	**111 - 116**
10	**2020/21 Audit Completion Report for the Essex Pension Fund** To receive a report (AGS/11/22 and appendix) presented by Nicole Wood, Executive Director Corporate Services, Essex County Council	**117 - 158**
11	**Draft 2020/21 Audit Completion Report for Essex County Council** To receive a report (AGS/12/22 and appendix) presented by Nicole Wood, Executive Director Corporate Services, Essex County Council	**159 - 204**
12	**Work Programme** To receive a report (AGS/13/22) from Paul Turner, Director, Legal and Assurance, Essex County Council	**205 - 208**

13 **Date of next and future meetings**

To note that upcoming meetings will be held at County Hall, Chelmsford on the following dates (all 10:30am start times):

Monday 27 June 2022
Monday 19 September 2022
Monday 28 November 2022
Monday 16 January 2023
Monday 27 March 2023

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: Justin Long, 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 A Hedley	Chairman
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	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, 31 January 2022

A YouTube recording of the meeting is to be found online.

Present:

Members:

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

ECC Officers:

Christine Golding	Chief Accountant
Nicole Wood	Executive Director Corporate Services
Stephanie Mitchener	Director, Finance
Paul Turner	Director, Legal and Assurance (Monitoring Officer)
Justin Long	Senior Democratic Services Officer (clerk to the meeting)
Michael Hayes	Democratic Services Assistant

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. Apologies were received from Councillor Hoy and Councillor McGurran.

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 13 December were approved as a correct record and there were no matters arising.

3. National scheme for local auditor appointments

The Committee received a report (AGS/01/22 and appendix) from Nicole Wood, Executive Director for Corporate Services, presented by Christine Golding, Chief Accountant.

Resolved:

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 audit of accounts for the financial years 2023/24 to 2027/28.

4. Measures to improve local audit delays

The Committee received a report (AGS/02/22) from Nicole Wood, Executive Director for Corporate Services, presented by Christine Golding, Chief Accountant.

Members noted their disappointment over the delay in completing the 2020/21 external audit, and it was agreed the correspondence sent to the PSAA would be shared with the Committee.

Resolved:

That the report be noted.

5. Financial Regulations and Scheme of Delegation for Financial Management

The Committee received a report (AGS/03/22) from Nicole Wood, Executive Director Corporate Services. Christine Golding, Chief Accountant, introduced the item and gave a presentation which can be found here.

Resolved:

That the Committee supports the proposed revisions to the Financial Regulations and Scheme of Delegation for Financial Management, as appended to the report, and recommends their adoption by full Council.

6. Work Programme

The committee received a report (AGS/04/22) from Paul Turner, Director, Legal and Assurance, that detailed the planned ongoing programme of work.

It was noted that an additional meeting may be required for the purpose of receiving the external auditor's completion reports.

Resolved

That the report be noted.

7. Date of next meeting

The committee noted that the next scheduled meeting will be held on Monday 21 March 2022 at 10:30am at County Hall, Chelmsford.

Chairman

Agenda Item 3
AGS/04/22

Report title: Internal Audit and Counter Fraud Progress Report	
Report to: Audit, Governance and Standards Committee	
Report author: Paula Clowes, Head of Assurance	
Date: 21 March 2022	**For:** Discussion
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 28 February 2022.

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

3.1.1 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’
- One follow-up Audit received a ‘Limited Assurance’ rating during the period (Disaster Recovery)

- Six audits have received a ‘Satisfactory Assurance’ rating.

- As at 8 March 2022 there were 0 Critical, 19 Major and 91 Moderate recommendations open. 90 recommendations have been reported as having been implemented so far during 2021/22.

- The total number of fraud referrals received to date for the 2021/22 year is 201.

- During this period the work of the Counter Fraud team has resulted in the recovery of the prevented future loss of £80,356 with £54,334 in recovery.

4. Links to our Strategic Ambitions

4.1 Internal Audit and Counter Fraud activity is critical in ensuring that the Council successfully mitigates its risks in all areas of work and that the public purse is protected to ensure that available resources reach those most in need. This report links to the following aims in the Essex Vision.

- Enjoy life into old age
- Provide an equal foundation for every child
- Strengthen communities through participation
- Develop our County sustainably
- Connect us to each other and the world
- Share prosperity with everyone

4.2 This report links to the following strategic priorities in the emerging Organisational Strategy ‘Everyone’s Essex’:

- A strong, inclusive and sustainable economy
- A high quality environment
- Health wellbeing and independence for all ages
- A good place for children and families to grow

5. Financial implications

5.1 There are no financial implications as the Internal Audit and Counter Fraud activity 2021/22 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.

6.2 The Accounts and Audit Regulations 2015 require the authority to have adequate systems of internal control and internal audit is a way of demonstrating this.

7. Equality and Diversity Considerations

7.1 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.

7.2 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).

7.3 The equality impact assessment indicates that this report will not have a disproportionately adverse impact on any people with a particular characteristic.

8 List of Appendices

Appendix A - Internal Audit and Counter Fraud Progress Report December 2021 – February 2022.

9 List of Background papers

Internal Audit reports
Internal Audit and Counter Fraud Plan for 2021-22
Internal Audit Charter

APPENDIX A

Essex County Council

Internal Audit
&
Counter Fraud

Progress Report

December 2021 – February 2022

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 28 February 2022.

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. **Eleven** final reports have been issued since the December 2021 Audit, Governance and Standards Committee as detailed in the Table below:

Assurance Rating	Audit Title	Recommendations Made			
		Critical	Major	Moderate	Low
Good	Better Care Fund	0	0	0	2
Good	Cyber Security	0	0	2	0
Good	ACCESS Support Unit	0	0	1	0
Good	South East Local Enterprise Partnership (SELEP)	0	0	0	0
Satisfactory	IT Incident Management	0	0	1	6
Satisfactory	Use of Consultancy	0	0	3	0
Satisfactory	Integrated Waste Handling	0	0	0	0
Satisfactory	Business Continuity	0	0	1	3
Satisfactory	Wellbeing	0	0	0	0
Reasonable Progress	Libraries Stock Control and Fees and Charges – Follow Up	0	0	5	1
Limited	IT Disaster Recovery – Follow Up	0	3	3	0

Full Internal Audit reports can be provided to Committee Members upon request.

Limited Assurance Reviews – Executive Summary

IT Disaster Recovery – Follow Up

The Council has made ***significant progress*** since its previous IT Disaster Recovery audit in 2016/17 which received an overall opinion of **No Assurance** with five Critical recommendations. All five Critical recommendations have now been closed.

The recent follow up identified three Major and three Moderate recommendations. These relate to:

- Incomplete business impact analysis and validation *(Major)*
- Operating effectiveness of the disaster recovery arrangements *(Major) – this action has been recorded as implemented.*
- IT disaster recovery testing *(Major)*
- Roles and responsibilities for invoking the IT Disaster Recovery Plan *(Moderate)*
- the IT Disaster Recovery Plan remains in draft *(Moderate)*

- the Cloud Strategy is yet to be approved *(Moderate) – this action has been recorded as implemented*

At the time of finalising the report it had been agreed that all recommendations will be implemented by September 2022. The service would normally be asked to attend this meeting to explain the actions they are taking to respond to the report but on this occasion the Director, Technology Services has requested more time.

Grant Claims

We have completed a review of 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)

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 8 March 2022 there were 19 Major and 91 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 as at 30 November 2021	Number Recorded as Implemented as at 8 March 2022
Critical	0	3
Major	4	10
Moderate	50	77
Total:	**54**	**90**

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 Major recommendations as at 8 March 2022 are detailed in Appendix 2. There are no open Critical recommendations.

Eleven of the open **Major** recommendations are more than one month overdue compared to their latest agreed implementation date. This number has increased by four compared to that reported in our December 2021 Progress Report.

There are **seventeen Moderate** recommendations more than six months overdue compared to their latest target date for implementation. This number has reduced by four compared to that reported in December 2021.

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

There are minimal changes to report in relation to delivery of the Internal Audit and Counter Fraud Plan in 2021/2:

- School establishment visits have been delayed due to Covid but are now booked in to commence in April 2022.
- The Treasury Management review was described as “flexible” in the Plan as we were waiting for the new Treasury Management Code and the Prudential Code to be issued by CIPFA. This has now recently been published and so an audit of Treasury Management will take place in early 2022/23 and has been included in the Internal Audit and Counter Fraud Plan for 2022/23.

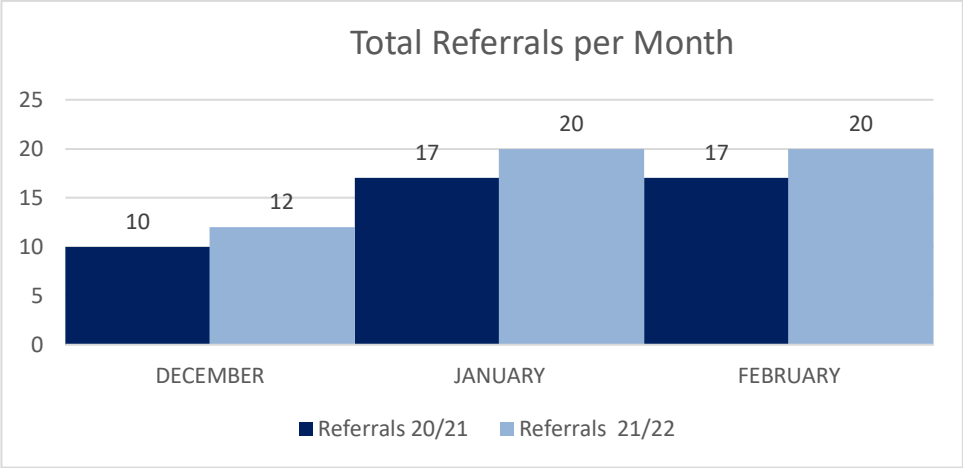
Counter Fraud Activity

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

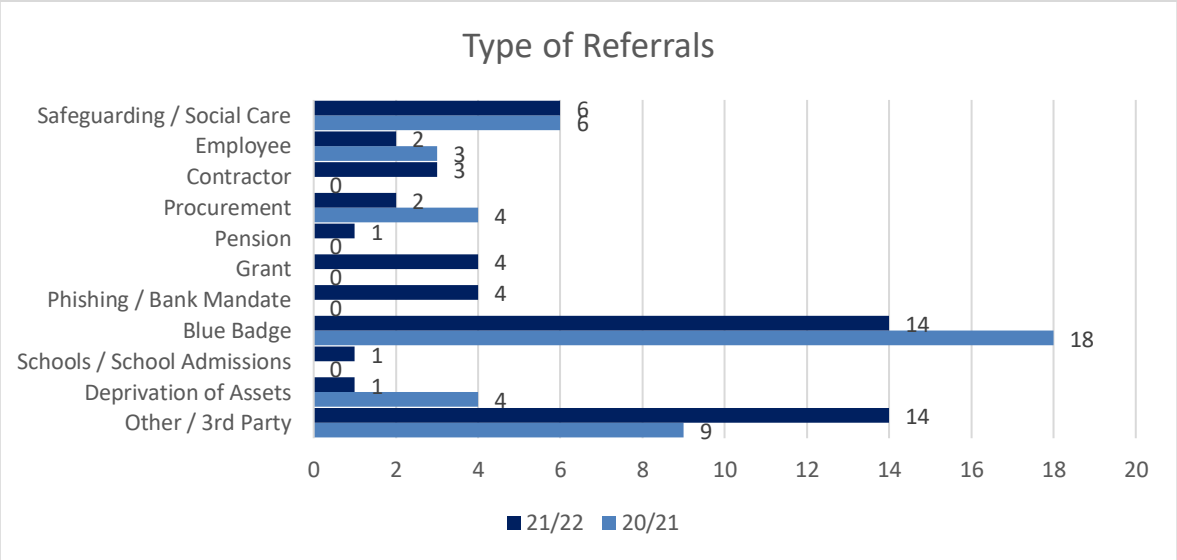
The total number of fraud referrals received to date for the 2021/22 year is **201**. The total referrals received during 2020/21 (1 April 2020 to 31 March 2021) amounted to **159**. We have therefore seen an increase in the number of referrals throughout the course of the year.

During the 3-month period 1 December 2021 to 28 February 2022, **52** referrals were received (including blue badge). The table below shows how this compares to the same reporting period last year (**44** referrals were received during the reporting period December to February 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:

- Covid funding forwarded to Adult Social Care Providers. An analysis is being completed of the total covid related funding that has been forwarded to providers, per individual provider. A sample of providers will be selected for review and evidence requested to confirm that funding has been spent in accordance with the relevant grant agreements.

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 **£66,250** in relation to pension payments that have been recovered.

Since December 2021, a further 64 matches have been forwarded to ECC Pensions for review.

Fraud Awareness Training

As at 28 February 2022 the percentage of staff that have completed the recently refreshed e-learning modules relating to the fraud modules are as follows:

- 59.7% - Anti-fraud and corruption
- 59.6% - Anti-bribery and money laundering.

Staff who have not yet completed the modules have been reminded to do so. A system change within HR has meant that reminders have only been issues within the last month.

Additional bespoke training sessions have been completed as follows:

- Fraud Awareness trainings session for Members
- Understanding Fraud in Adult Social Care (two sessions for the Essex Social Care Academy)

- Bank Mandate and phishing fraud awareness for ECC Procurement Officers

Counter Fraud Outcomes

During the period 1 December 2021 to 28 February 2022, the following outcomes and sanctions have been achieved:

Outcomes	1 December 20 - 28 February 21	1 December 21 - 28 February 22
Prosecutions	0	0
Disciplinary Action	0	0
No Fraud Established	4	7
Phishing / Referred to third party	4	6
Blue Badge - Misuse Letter Sent	4	1
Blue Badge - Seized	2	3
ASC - Financial Recovery	2	1
ASC - PB terminated/reduced	2	3
Other - Financial Recovery	0	0
Other - Misuse Letters	0	0
Payment Prevented	0	1
Other	0	6

**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

During the last quarter, the Counter Fraud team have received further referrals relating to potential inflated grant claims of covid funding. In addition, there has been reported misuse of funding claimed via the Locality Fund and Essential Living Fund that are in the process of being investigated.

Financial Recoveries

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

1 December 2021 - 28 February 2022	
ACTUAL - Monies Recovered	0.00
ACTUAL - Monies in Recovery	54,334.75
NOTIONAL - Future Losses Prevented	80,356.02
NOTIONAL - Estimated Losses**	1,853,709.70
TOTAL	**1,988,400.47**

** Note – Estimated losses include a notional reserve pending an insurance claim against the Council for personal injury. This claim was successfully defended, after surveillance and additional evidence obtained rendered the claim to be over-inflated.

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 £1,725 have also been identified as 3 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 Major Recommendations.

Appendix 1 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: ▪ 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 ***Remedial action must be taken immediately***
● Major	Major in that failure to address the issue or progress the work would lead to one or more of the following occurring: ▪ 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 ***Remedial action must be taken urgently***
● Moderate	Moderate in that failure to address the issue or progress the work would lead to one or more of the following occurring: ▪ 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. ***Prompt specific action should be taken***
● Low	Low in that failure to address the issue or progress the work would lead to one or more of the following occurring: ▪ 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. ***Remedial action is required***

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 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

<u>Appendix 2</u> Open Major Internal Audit Recommendations as at 8 March 2022

Red text means that the deadline has been exceeded without a revised deadline being requested and agreed.

Audit Review Title	Recommendation	Original Target Date	Latest Target Date	Last Status Update	Owner	Risk Rating
Business Continuity (1516 COR12)	**Third Party Dependencies** Validation of key third party suppliers' business continuity arrangements	31/12/16	31/03/22	**14 February 2022:** Revised date of 31 March 2022 requested to enable Procurement to review and feedback to BC Team & plan for any agreed updates to sourcing processes	Strategy and Assurance Lead, Procurement	Major
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	**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. **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. An audit has been included in the draft Internal Audit and Counter Fraud Plan for 2022/23.	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	**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. **Audit Comment:** An Internal Audit review of Absence Management is planned for 2022/23	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
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 understand the potential for removing the paper security card forms.	Facilities Manager	Major
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		**8 March 2022:** 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. A follow up audit has been completed and a draft report is due to be issued shortly. This recommendation has not been fully implemented and so remains open. A revised target date will be sought when the new report is finalised.	Head of Commercial Development	Major
Income System (2021 FT25)	**No evidence of back up arrangements and disaster recovery**	30/11/21		**Audit Comment:** Final report issued in September 2021. No update provided since. A follow up audit of this area is planned for 2022/23.	Supplier and Service Assurance Manager	Major

Audit Review Title	Recommendation	Original Target Date	Latest Target Date	Last Status Update	Owner	Risk Rating
IT Disaster Recovery (2021 F19)	**Incomplete business impact analyses**	21/12/21	30/09/22	**12 January 2022:** An initial set of BIA data has been provide to Tech Services for consideration, some further information is required on some critical services less than 5%. Tech Services and Business Continuity are meeting to start to consider whether IT Recovery Time Objectives (RTO's) support the business's RTO's. **Audit Comment:** Final Internal Audit report issued late December 2021.	Jointly owned by Chief Operating Officer and Emergency Planning and Resilience Manager	Major
	IT Disaster Recovery Testing	30/09/22 (not yet due)			Chief Operating Officer	Major
Accounts Receivable (2021 FT11AR)	**Automated system functionality to enforce compliance with the Collection Strategy and prioritisation of activity**	31/03/22 (not yet due)			Service Manager, Finance	Major
	Reliance on non-established posts	31/12/21		No update provided.		Major
IT Asset Management (2021 FT17)	**Hardware Asset Audits**	1/09/21	31/03/22 (not yet due)	**17 December 2021:** Following data reconciliation activities, Device Management and Asset Admin are reviewing all inactive an unknown assets as a clean up activity. Lessons learned from this activity will inform the continual audit and remediation process. **Audit Comment:** A follow up review will be undertaken in 2022.	Chief Operations Officer	Major
	IT Infrastructure Planning	1/01/22	28/02/22	**10 February 2022:** Awaiting Tech Services Leadership Team confirmation to commence these meetings. **17 December 2021**: Draft terms of reference complete and circulating throughout stakeholder	Chief Operations Officer	Major

Audit Review Title	Recommendation	Original Target Date	Latest Target Date	Last Status Update	Owner	Risk Rating
				base for a quarterly forecasting board meeting. Taking in data around technical refresh requirements, organisational growth and upcoming strategic onboarding activities to inform purchasing strategy.		
	Leavers Not on The Corporate System (TCS) and Inactive Assets	1/09/22	31/12/21	**23 February 2022:** A Document has been produced which explains the steps taken, on how we are notified of Non My Oracle Leavers, and how we then proceed to ensure a Leavers request is raised, to end network access/return of any ECC assets.	Chief Operations Officer	Major
	IT Equipment Orders	1/07/21	11/03/22	**21 February 2022:** Devices counted when delivery is made to make sure we get the correct number. Updated implemented date to complete testing on Device Management Power App and process for CMDB import.	Chief Operations Officer	Major
Country Parks (2021 PPH9)	**Stocktake and Reconciliations**	31/12/21		**8 December 2021:** Currently experiencing recruitment difficulties / delays for the Food &Beverage Manager position, which is delaying full implementation of recommendations due to the requirement for this post to specify and procure / source external stock taking services, ePOS system, and reviewing and implementing updated procedures and operating controls.	Commercial Operations Manager	Major
	Absence of a stock write off and stock discounting procedures					Major
Essex Traveller Unit (2021 PPH6)	**Site Management Plan**	31/03/22 (not yet due)		**4 November 2021:** Cllr Graham Butland has been engaged and briefed on the financial position of the service and long term maintenance requirements.	Wellbeing, Place and Communities Lead	Major

Audit Review Title	Recommendation	Original Target Date	Latest Target Date	Last Status Update	Owner	Risk Rating
	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 undertaking 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

Agenda Item 4
AGS/05/22

Report title: Risk Management Strategy	
Report to: Audit, Governance and Standards Committee	
Report author: Paula Clowes, Head of Assurance	
Date: 21 March 2022	**For:** Approval
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 the council's risk management arrangements.

1.2 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. The foundation of our arrangements for risk management is the Risk Management Strategy.

2. Recommendations

2.1 The Risk Management Strategy 2022/23 be approved in the form appended to the report.

3. Background

3.1 The Council's current Risk Management Strategy was approved by Audit Governance and Standards Committee in January 2020. It has now been reviewed and updated in line with our annual review process.

3.2 The refreshed Risk Management Strategy is attached at appendix 1.

3.3 The following changes have been made as part of the annual review for 2022:

- Date change 9 (front page)
- Removed reference to Organisation Strategy as we now have Everyone's Essex.

4. Links to our Strategic Ambitions

4.1 A strategic approach to risk management is critical in ensuring that the Council successfully mitigates its risks in all areas of work to ensure vital services continue to be delivered and available resources reach those most in need and the council remains resilient. This report links to the following aims in the Essex Vision.

- Enjoy life into old age
- Provide an equal foundation for every child
- Strengthen communities through participation
- Develop our County sustainably
- Connect us to each other and the world
- Share prosperity with everyone

4.2 This report links to the following strategic priorities in the emerging Organisational Strategy 'Everyone's Essex':

- A strong, inclusive and sustainable economy
- A high quality environment
- Health wellbeing and independence for all ages
- A good place for children and families to grow

5. Financial implications

5.1 There are no financial implications as the risk management activity will be met within existing resources.

6. Legal implications

6.1 The Accounts and Audit Regulations 2015 require the Council to have a sound system of internal control which includes a requirement to have adequate arrangements for the management of risk. The strategy sets out our arrangements and is thus a key way of complying with those regulations.

7. Equality and Diversity Considerations

7.1 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.

7.2 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).

7.3 The equality impact assessment indicates that this strategy will not have a disproportionately adverse impact on any people with a particular characteristic.

8 List of Appendices

Appendix A - Risk Management Strategy 2022

9 List of Background papers

None

Essex County Council

Risk Management Strategy

March 2022

Version 2.2

Essex County Council

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 one part of our risk management framework.

2. Statement of Commitment

Gavin Jones

Chief Executive

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 Everyone's Essex.

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.

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

Programme or Project risks can exist at any level and within any service and should be managed using the same risk management process as other risks.

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 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.

Risk Matrix (Threats)

			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.

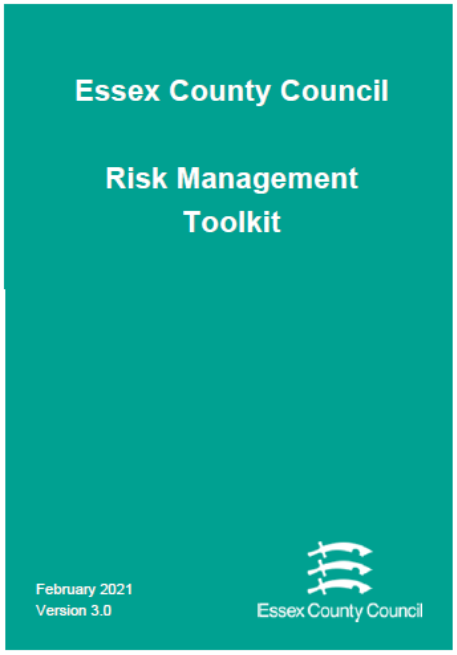
The effectiveness of risk management is evaluated on an annual basis and reported on within the Head of Audit's annual report to Audit Governance and Standards Committee.

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.



Agenda Item 5
AGS/06/22

Report title: Internal Audit and Counter Fraud Plan 2022/23	
Report to: Audit, Governance and Standards Committee	
Report author: Paula Clowes, Head of Assurance	
Date: 21 March 2022	**For:** Approval
Enquiries to: Paula Clowes, Head of Assurance paula.clowes@essex.gov.uk	
County Divisions affected: All Essex	

1. Everyone's Essex

1.1 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 to ensure that the council remains resilient and critical services are delivered effectively and efficiently.

1.2 The full Internal Audit and Counter Fraud plan is attached at Appendix A.

2. Recommendations

2.1 That the 2022/23 Internal Audit and Counter Fraud Plan be approved in the form annexed to the report.

3. Background

3.1.1 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.

3.1.2 The Internal Audit and Counter Fraud Plan for 2022/23 is fully risk based 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 Everyone's Essex, 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

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

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

4. Links to our Strategic Ambitions

4.1 Internal Audit and Counter Fraud activity is critical in ensuring that the Council successfully controls its risks in all areas of work and that the public purse is protected to ensure that available resources reach those most in need. This report links to the following aims in the Essex Vision.

- Enjoy life into old age
- Provide an equal foundation for every child
- Strengthen communities through participation
- Develop our County sustainably
- Connect us to each other and the world
- Share prosperity with everyone

4.2 This report links to the following strategic priorities in 'Everyone's Essex':

- A strong, inclusive and sustainable economy
- A high quality environment
- Health wellbeing and independence for all ages
- A good place for children and families to grow

5. Financial implications

5.1 There are no financial implications as the Internal Audit and Counter Fraud activity 2021/22 will be met within existing resources.

6. Legal implications

6.1.1 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 Considerations

7.1 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.

7.2 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).

7.3 The equality impact assessment indicates that this report will not have a disproportionately adverse impact on any people with a particular characteristic.

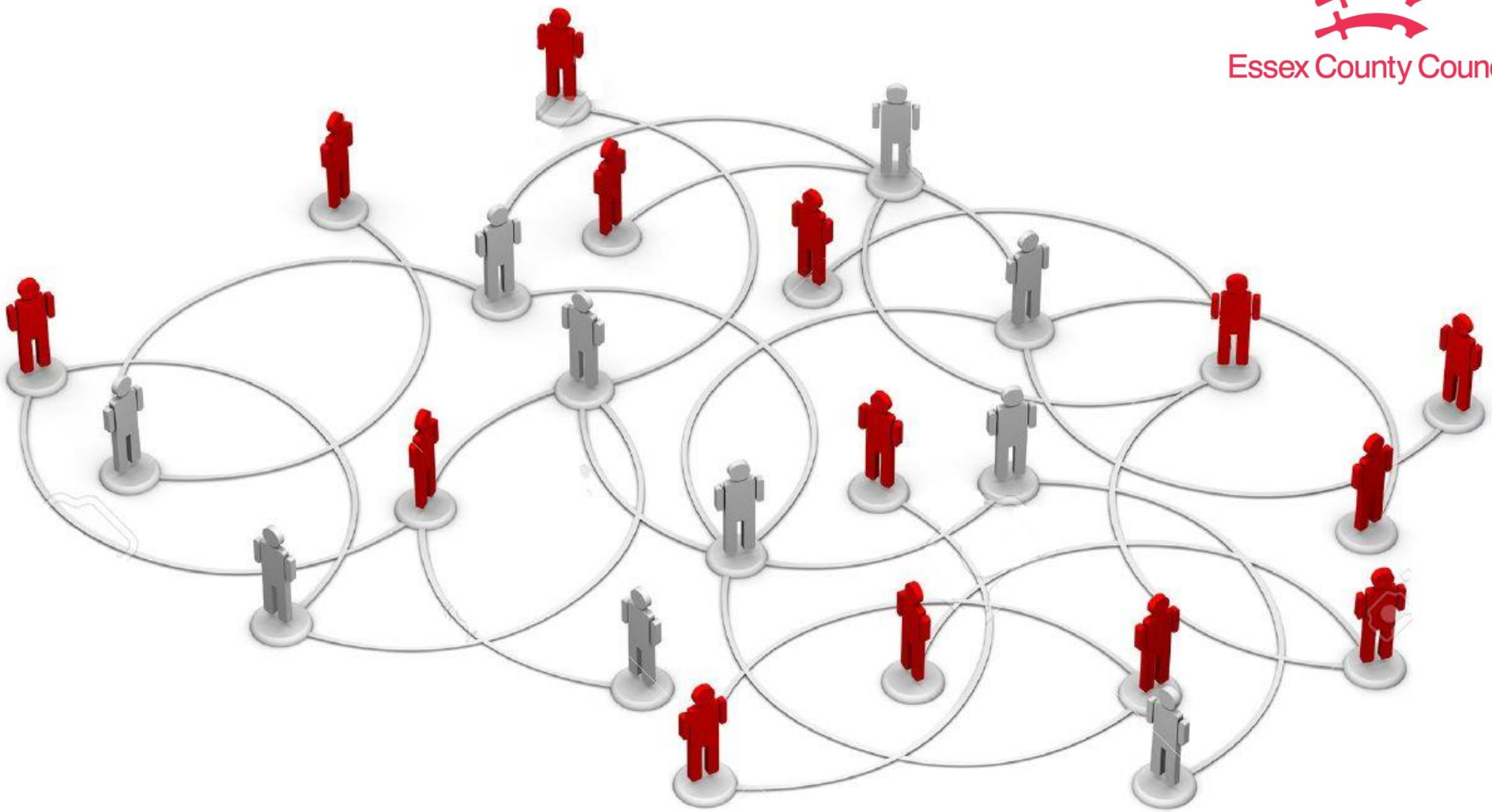
8 List of Appendices

Appendix A - Internal Audit and Counter Fraud Plan 2022/2023.

9 List of Background papers

Strategic Risk Register
Internal Audit reports

Essex County Council



DRAFT Internal Audit and Counter Fraud Plan 2022-23

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 Corporate Services (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

Purpose of the Internal Audit and Counter Fraud Plan

Everyone's Essex sets out the Council's strategic direction and priorities for the four-year period 2021 to 2025. It describes what the Council will do to deliver its vision for the people of Essex. Everyone's Essex sets out 20 commitments for the next four years, focussing on four areas where outcomes really matter for the quality of life for all people in Essex.

They are:

- Strong, inclusive and sustainable economy
- High quality environment
- Health, wellbeing and independence for all ages
- A good place for children and families to grow

Embedded in the Council's plan is a renewed commitment to addressing inequalities and levelling up life chances for residents.

The Everyone's Essex Annual Plan 2022/23 expresses the Council's 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. **Each Internal Audit engagement, where appropriate, will highlight how it aligns to the Council's strategic objectives and risks.**

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.

Internal Audit and Counter Fraud Plan for 2022-23

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

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

Risk Registers

Review of the Council's strategic, project and operational risk registers, taking into account the risk maturity of the Council.

Key Corporate Documents

Key corporate documents including the Everyone's Essex (Strategy) for 2021 to 2025, 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 management oversight, Delivery Assurance, third-party regulators and accredited bodies (for example, OFSTED), where these are deemed reliable.

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 2022/23. Consideration of future planned national and international legislative changes that may impact on the way ECC delivers its services.

Organisational Change

Consideration of the Council's organisational change programme and activity, including Ways of Working (continuation of remote/home working), launching the new four-year Strategy in 2021, the recent implementation of My Oracle in 2021 (move to cloud-based services) and the Social Care Platform Programme.

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 (for specialist skills and extra capacity). Delivery and resourcing are based on current capacity, on the assumption that resourcing remains stable and that where possible we will utilise data analytics to inform our audit and counter fraud activity. If any changes to our resources should occur, we will prioritise audits of strategic importance and essential to the Chief Audit Executive'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 the AGS Committee. It is recognised that some changes may need to be made due to the Covid-19 pandemic.

Summary Internal Audit and Counter Fraud Plan - by Function

Corporate Services

- Essex Pension Fund
- South East Local Enterprise Partnership
- SELEP Growth Hub
- Key Financial Systems - My Oracle
- Income System - follow up
- Risk Maturity Model
- Access Support Unit
- Broadband Delivery
- Cyber Security
- Software Licence Management
- IT Assets - follow up
- IT Disaster Recovery - follow up
- Social Value
- Business Continuity
- Reprocurement of Banking Arrangements
- Device as a Service Project
- Treasury Management
- Data Quality Assurance
- Financial Assessments & Billing (ASC)
- Business Cases
- Financial Management & Reporting
- Corporate Property Strategy
- Essex Owned Companies
- Sourcing and Contract Management (ASC)

Economy Investment & Public Health

- Grant Certifications
- Adult Community Learning
- Passenger Transport
- Essex County Wide Travellers - follow up
- Section 106 Agreements
- Country Parks Stock Control - follow up

Adult Social Care

- Better Care Fund
- Liberty Protection Safeguards
- Financial Assessments & Billing
- Individual Care Package Awards
- Transforming Mental Health
- Carers
- Sourcing and Contract Management (ASC)
- Social Care Case Management
- Management Information and KPIs
- Social Care Charging Reform
- Safeguarding (Adults)

People & Transformation

- Staff Absence Management
- Apprentices
- Payroll
- Occupational Health
- Temporary Workers Framework

Children, Families & Education

- Liberty Protection Safeguards
- Personal Budgets
- Initial Teacher Training Bursaries
- Supporting Families Programme
- Youth Offending
- Social Care Case Management
- Schools
- Schools Financial Value Standard
- Education Management System

Climate, Environment & Customer Services

Integrated Waste Handling

Chief Executive

Delivery of Everyone's Essex

Pro-active preventative, detective fraud work and investigations

Chief Audit Executive's Annual Opinion on the Council's internal control, governance and risk management arrangements

Internal Audit and Counter Fraud Plan 2022/23

Reference	Audit Title	Risk Justification	Proposed Objective / Coverage
Corporate Services			
CS1 and CS2	Essex Pension Fund – Administration and Funding & Investments	The Council, as the Administering Authority, is responsible for the effective running of the pension 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.
CS3	South East Local Enterprise Partnership (SELEP)	The Council 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 the Council is responsible for the SELEP investment programme, ensuring it is appropriately allocated, used for approved purposes, and drives sustainable growth and job creation.	To assess the robustness of ongoing 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. *Note that the SELEP will be impacted by the recently published (February 2022) Levelling up White Paper, but at the time of writing this Plan the full implications are not known.*

Reference	Audit Title	Risk Justification	Proposed Objective / Coverage
GRT	SELEP Growth Hub: • Peer Network Grant • Core Funding Grant	Internal Assurance reports required to be submitted to the Department for Business, Energy and Industrial Strategy (BEIS) for the 2021/22 financial year.	**Growth Hub Peer Network Grant** claimed in arrears based on actual evidenced spend. Report/Letter due to BIES – 30/09/2022 **Growth Hub Core Funding Grant** claimed in advance quarterly, based on budget. Underspend to be declared and subject to clawback. Report/Letter due to BIES – 31/05/2022
CS4	Key Financial Systems – My Oracle	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 fraud and or material error. If the key financial operational processes are not effective, this could lead to overspends, poor use of resources, higher levels of debt and failure to pay staff and suppliers on time.	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 My Oracle are accurate, complete, authorised, valid, timely and efficient. Includes: • Accounts payable • Accounts receivable (including debt management) • Banking and cash • General ledger (journals and virements) • Scheme of delegation (including escalations and vacation rules) • Change Management (including management of quarterly evergreen releases) • Expenses. Scope to also include reconciliations and interfaces, maintenance of training and learning materials such as My Oracle Hub, help desk and incident management, contracts associated with My Oracle, management reporting, compliance checking, VAT and housekeeping. Where possible we will look to apply data analytics and continuous auditing to our approach. Note that the Council transitioned to Oracle Fusion (known as My Oracle) in late 2021 for all key financial systems. The 2021/22 audit looked to verify the control processes in place. The 2022/23 work will examine if these are working effectively in practice.

Reference	Audit Title	Risk Justification	Proposed Objective / Coverage
CS5	Income System – follow up	The integrity of the Council's income collection system is essential to ensuring that income is collected promptly and allocated correctly to the Council's General Ledger. There are associated risks around customers not being able to pay the Council for services / goods received thereby negatively impacting on cash flow, budgetary control and forecasting and customer experience.	Customer card payments, cash and cheque income come through Capita 360 prior to being allocated to the Council's General Ledger. This audit will follow up on the recommendations agreed in the prior year's Limited Assurance review.
CS6	Risk Maturity Model	Effective risk management helps support good decision making and service/project delivery across all Functions and at the strategic level.	To provide assurance over the Council's risk management arrangements to assist in forming the Chief Audit Executive's annual opinion. The audit will specifically assess compliance against the established 'ALARM' Risk Management Framework. *We will ensure there is the required level of independence when carrying out this review as this service comes under the CAE remit.*
CS7	Access Support Unit (ASU)	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£56bn (as at February 2022).	ECC hosts the 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 Access Pool.

Reference	Audit Title	Risk Justification	Proposed Objective / Coverage
		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.	
CS8	Broadband Delivery (UK)	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. Also, annual certification of payment claims.
CS9	Financial Management and Reporting	Risk of basing decisions on poor financial information, potential disruption / cessation of critical services, inability of the Council to maintain long term financial stability. Rising inflation is impacting on costs.	To provide assurance over how the Council optimises it budgeting, forecasting, scenario planning and reporting. To ensure that budget holders have accountability and have a clear understanding of financial performance and forecasting. Note that the Council transitioned in late 2021 to new tools for planning, budgeting and forecasting as part of the move to Oracle Fusion (known locally as My Oracle).

Reference	Audit Title	Risk Justification	Proposed Objective / Coverage
CS10	Business Cases	Decisions may be made on unsound assumptions, benefits may not be realised or costs may escalate in comparison with what was included in the business cases on which the decision to proceed was based without appropriate change control and authorisations in place. Risks may not be managed appropriately once the business cases have been approved.	To provide assurance over the business case processes and procedures that are used to form key decisions, including stakeholder engagement, responsibilities and sign off, robustness of costings, assumptions, benefits identification and tracking, risk management and change control. To also include governance and tracking of approved business cases and accountability to ensure that they are appropriately executed and the desired outcomes are achieved. This audit will also specifically include benefits realisation of the Corporate Systems Programme.
CS11	Data Quality Assurance	Risk of making decisions or being misinformed due to poor quality data. Statutory reporting may be inaccurate. Benchmarking could be flawed.	To ascertain the mechanisms in place to ensure **quality of data** in key systems such as My Oracle, Capita One, Social Care Case Management etc and that there is clear ownership, accountability and management oversight. Links to a strategic risk on the Council's risk register relating to this area.
CS12	Treasury Management	Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003. Imprudent borrowing and investments could be undertaken which	In 2021 the Chartered Institute of Public Finance and Accountancy (CIPFA) consulted on the principles to support changes to the Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (Treasury Management Code), as well as on the changes to the Prudential Code for Capital Finance in Local Authorities. Revised Codes were launched in December 2021. The new Codes will have a 'soft' launch of provisions for the 2022-23 financial year, i.e., where possible local authorities should make their best endeavours to adhere to their provisions and not undertake any new investments that would not be consistent with

Reference	Audit Title	Risk Justification	Proposed Objective / Coverage
		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.	the changes; and the Codes are expected to be fully implemented in the 2023/24 financial year. To provide assurance that the Prudential Code and Treasury Management Code are being complied with and that the Council is able to enact the revisions to the Codes and associated guidelines within the prescribed timescales.
CS13	Software Licence Management	The Council may not be achieving good value for money if licences for unused applications continue to be paid for or if licences are duplicated. Users may be prevented from accessing systems / data that they require due to additional licencing fees. Programmes and Projects may not identify the cost and associated risks with licences resulting in unanticipated delays and cost overruns.	To provide assurance that the Council has appropriate oversight and internal controls to ensure it is maximising its software licence position and minimising costs associated with inactive licences.
CS14	IT Asset Management – follow up	To follow up on the Limited Assurance review from the prior year.	The audit will seek to obtain the latest position on the IT asset management actions raised in the prior year and report on any residual risks.

Reference	Audit Title	Risk Justification	Proposed Objective / Coverage
CS15	Cyber Security	Rapid rate of change in this area and a key risk for all local authorities. Significant financial and reputational risks if the Council falls victim to a cyber attack.	Independent IT specialists will be used for this audit review, scope to be determined, but may include the following cyber essentials technical control areas: • firewalls • secure configuration • user access control • malware protection • security update management And could also include cyber security people risks, governance and oversight and a cyber incident response assessment.
CS16	Device as a Service Project	Value for money may not be achieved, data quality around current IT asset estate may lead to incorrect pricing models for future arrangements.	Also has links with IT assets follow up review. The Council intends to review the purchasing of its IT asset arrangements and consider alternative models such leasing and / or a managed service. This audit will provide oversight of the procurement, transition and contract management of the new service, including device security and any new helpdesk arrangements. *Note that this audit is dependent on business case approval expected by April 2022.*
CS17	Essex Owned Companies	Essex County Council has a number of local authority trading companies which if not governed and administered appropriately could lead to financial, fraud, legal and reputational risks and /or cessation or degradation of service provision.	ECC has interests in and is involved in a number of companies where ECC owns shares, is a member of a company limited by guarantee and / or has the right to appoint directors. This audit will seek to provide assurance that there is a well-designed framework in place to enable central oversight (by managers, Members and shareholders) and manage the performance of companies ECC owns or partly owns, that financial/statutory reporting requirements are adhered to and that there are appropriate and proportionate internal controls, risk management and governance arrangements in place that are aligned to ECC's corporate strategies / objectives. It will also

Reference	Audit Title	Risk Justification	Proposed Objective / Coverage
			consider teckal arrangements, state aid, sustainability where applicable. Note that CIPFA are due to issue new guidance on the governance of local authority trading companies in early 2022.
CS18	IT Disaster Recovery – follow up	To follow up on the Limited Assurance Internal Audit review conducted in 2021.	To provide assurance to the AGS Committee on delivery of the actions identified in the prior year review and to report back on any residual risks.
CS19	Corporate Property Strategy	Financial, reputational and legal risks. Move to new ways of working following Covid-19 pandemic means corporate properties ECC occupies are under-utilised.	To look at the Council's medium and long term strategies / plans and the processes and procedures / decision making around acquisitions, disposals and property performance (including costs, and condition surveys); to ascertain whether ECC is effectively managing its assets and planning for the future use of those assets. To also evaluate whether environmental / social value considerations are taken into account in decision making.
CS20	Financial Assessments (Adult Social Care) and Billing	Potential risk implications include delays or loss of income to the Council and / or failure to safeguard vulnerable adults. Also reputational risks if service user experience is not customer centric. Fraud risks if service users withhold information about their assets.	To evaluate whether financial assessments of service users' liability to fund care are completed accurately and timely. To include the assessment process, customer charging, the interfaces with Adult Social Care teams and the social care systems (Mosaic and A4W). To also look at the appeals, complaints process and fraud risks.
CS21	Sourcing and Contract Management (focusing on Adult Social Care)	If the organisation is not resistant and resilient to disruption it may risk not being able to meet its statutory obligations, value	To provide assurance over the robustness of forward planning and decision making in relation to extending / reprocuring / combining contracts to ensure that the Council achieves value for money and quality and continuity of services **with a particular focus this year on Adult Social Care**. To also look at contract management

Reference	Audit Title	Risk Justification	Proposed Objective / Coverage
		for money may not be achieved, service standards may not be of acceptable quality and there could also be safeguarding risks and / or escalating care needs if early intervention does not occur. Note that at the time of writing (February 2022) there is a national supply chain crisis, worker shortages e.g. in care market but also HGV drivers, escalating fuel costs and energy costs, changing regulations due to EU Exit, rising costs relating to importing of goods, also risk of companies going into liquidation due to Covid-19 and other market pressures.	arrangements, supply chain resilience, key performance indicators and management reporting. More generally, to ascertain to what extent ECC is impact assessing and preparing for the new procurement regulations anticipated to be introduced in 2022, as per the Green Paper "Transforming Public Procurement", to ensure compliance when they have to be implemented. *(According to the Green Paper, the Government has proposed that contracting authorities will be required to publish annual pipelines of their planned procurements and commercial activity, looking forward at least 18 months but ideally three to five years).* In addition to provide assurance that ECC has effected the changes required in relation to the new thresholds to be published on the Find a Tender Service (previously known as OJEU), has a clear rationale for estimating the total lifetime value for the threshold and has accounted for VAT correctly.
CS22	Social Value	The Public Services (Social Value) Act came into force on 31 January 2013. It requires people who commission public services to think about how they can also secure wider social,	To review the Council's themes, outcomes and priorities in relation to social value and their alignment to the Everyone's Essex Strategy; and how social value relating to Council and supply chain activities is embedded, reported and measured according to the principles laid out within the Public Services (Social Value) Act 2012.

Reference	Audit Title	Risk Justification	Proposed Objective / Coverage
		economic and environmental benefits.	
CS23	Business Continuity	If business continuity plans are not appropriately aligned and tested, in the event of a business continuity incident response times and activities may not be optimal, resulting in prolonged interruptions in service provision and associated safeguarding, reputational, financial and legal risks.	To build on the positive assurance opinion achieved in 2021/22. Due to the status of the system's implementation at the time of the 2021/22 review, exercises, lessons learned and reporting were not fully embedded and were therefore not included in the scope. The 2022/23 review will look at how well the new system is embedded and how robust the plans are in practice.
CS24	Reprocurement of the Council's banking arrangements	Risks around transitioning to any new bank provider and also ensuring ECC's requirements are clearly specified, evaluated and met by any new provider in a timely manner.	To provide oversight of the reprocurement of the Council's banking arrangements and transition activities, including bank accounts associated with Essex Pensions, Seax Trading and Essex Housing.
CS - ER	Emerging Risks	N/A	Additional work in this area could include but is not restricted to: • Support Services Project (at discovery phase at time of writing this Plan) • The Corporate System (TCS) archiving solution

Reference	Audit Title	Risk Justification	Proposed Objective / Coverage
Economy, Investment and Public Health			
EIPH1	Passenger Transport	Material spend, safeguarding risks, legal and financial risks, could impact on ECC's reputation if service provided is not to an acceptable standard.	Home to school transport (mainstream and special educational needs) and adult social care transport. To include school transport awards and appeals; contract specifications, awards, management and variations; dynamic purchasing framework, bidding and onboarding of providers; financial management and cost forecasting including transport risk assessments; and complaints / feedback from providers and key stakeholders. Audit to commence early in the financial year and to avoid period July to October 2022.
EIPH2	Adult Community Learning	Potential financial and reputational risks.	Scope to be fully determined based on risk at the time of conducting the audit. Potential risk areas could include IR35, venues vs online learning, tutors, budgetary control and financial sustainability, customer feedback, fees, charges and concessions, information governance, curriculum decisions. Last full OFSTED inspection was February 2018 at which point the service was rated as Good.
EIPH3	Essex County Wide Travellers Unit – follow up	To follow up on the Limited Assurance Internal Audit review that took place in 2021.	To ascertain the current status of the actions raised in the prior year review and report back to the AGS Committee on any residual risks.
EIPH4	Section 106 Agreements	Section 106 of the Town and Country Planning Act 1990 (as amended) provides a mechanism whereby developers can address the impact of their development on the local community through the provision of, or contribution towards infrastructure (for example affordable	This audit will seek to ensure that Section 106 agreement opportunities are appropriately identified and agreed, amounts are collected in full and developer obligations are met. This will include establishing arrangements in place for ensuring corporate oversight, policy and guidance, monitoring the completion and delivery of non-financial obligations, receipt of S106 income, enforcement of S106 agreements and utilisation and monitoring of S106 expenditure.

Reference	Audit Title	Risk Justification	Proposed Objective / Coverage
		housing, highway improvements or community facilities). Potential risks are that obligations under the agreements may not be fully discharged, the developer could become insolvent or triggers for payment may not be met, unused contributions may not be returned after 10 years, financial contributions may not be used for their specific purposes.	
EIPH5	Country Parks – Stock Control Follow Up	To follow up on the Limited Assurance review from the 2021/22 financial year.	To ascertain the current status of the actions arising from the prior year review and obtain supporting evidence to then be able to report back to the AGS Committee on any residual risks.
GRT	Grant Certifications	6 monthly or annual grant certifications required to be internally audited.	Interreg – BLUEPRINT Innovate UK – Solar Powered Forecourt Interreg - LECSEA Interreg – 2imprezs (new from December 2021) Department for Transport - Integrated Capital Grant Bus Service Operators Grant (BSOG) Department for Transport – Traffic Signal Management Award

Reference	Audit Title	Risk Justification	Proposed Objective / Coverage
EIPH - ER	Emerging Risk	N/A	Additional work in this area could include but is not restricted to: • Supporting the Registrars Service following the expected GRO (General Register Office) inspection due to take place in February 2022, to ensure there are appropriate action plans in place to deliver on any recommendations arising from the inspection. *Note that a new Executive Director for Economy Investment and Public Health is due to join ECC in March / April 2022. We will meet with the new Executive Director to shape this part of the Audit Plan further.*
Climate, Environment and Customer Services			
CEC1	Integrated Waste Handling	The Council is due to bring back services in house from 1 April 2022	This review will take place in the latter part of 2022 to assess the effectiveness of the new arrangements. It will look at the transitional arrangements for bringing the service back in house and the effectiveness of the ongoing service delivery, monitoring and oversight arrangements. Note that Internal Audit did provide some oversight of this programme in the previous financial year (2021/22).
CEC - ER	Emerging Risks	N/A	*Note that a new Executive Director for Climate, Environment and Customer Services is due to join ECC in March / April 2022. We will meet with the new Executive Director to shape this part of the Audit Plan further.*
People and Transformation			
PT1	Absence Management	Internal Audit review in a prior year received Limited Assurance. Since then the system for recording absences has changed to	To provide assurance that the Council has robust arrangements in place for recording and monitoring staff absences including management oversight and accuracy of data.

Reference	Audit Title	Risk Justification	Proposed Objective / Coverage
		My Oracle. Potential staff wellbeing and fraud risks if absence	
PT2	Apprenticeship Scheme	Potential risks around poor staff retention, high staff turnover, low staff morale, financial and reputational loss, not upskilling employees to ensure a highly competent workforce.	ECC is an apprenticeship employer and an apprenticeship levy paying organisation. This audit will look to review whether ECC is maximising its use of the apprenticeship levy and provide assurance over whether ECC is meeting the requirements of the scheme and its own Apprenticeship Standards.
PT3	Occupational Health	ECC has a duty to consider any health issues that might affect an employee's ability to safely fulfil their job.	The audit will provide assurance over the referral process, guidance and use of the portal, employee and manager experience, risk assessments, contract management arrangements with ECC's third party provider, key performance indicators and management information and recharging to service budgets of additional services such as appeals and counselling.
PT4	Payroll	Without proper internal control payroll procedures in place, ECC runs the risk of compensation being issued to non-existent or terminated employees. When mistakes occur, a payroll may also be delayed, which could result in reputational damage.	Audit to verify the adequacy and effectiveness of controls around the management of starters, leavers, permanent and temporary changes to pay and management compliance checks. To ensure that pay is accurately calculated and reflected correctly in the General Ledger.
PT5	New Temporary Workers Procurement Framework	The new supply chain may not be robust enough to manage ECC's requirements in relation to	A health check style review in the second quarter of the financial year to provide assurance over the new arrangements. Matrix continue to provide billing and payroll services for temporary workers but the supply chain is now managed in house. This review

Reference	Audit Title	Risk Justification	Proposed Objective / Coverage
		temporary worker services which could result in not being able to fill temporary worker vacancies or poor value for money thereby impacting ECC's ability to deliver services.	will evaluate the controls around the new supply chain / procurement framework.
PT - ER	Emerging Risks	N/A	Additional work in this area could include but is not restricted to: • New Ways of Working Programme • Payroll service delivery model • Digital Services accessibility
Adult Social Care			
ASC1	Better Care Fund	Annual requirement to provide an internal audit as specified in the Section 75 Agreement. ECC is the accountable body.	To provide assurance that ECC fulfils its duties as accountable body for the BCF.
ASC2	Liberty Protection Safeguards (Adults and Children)	Major national reform that ECC needs to be prepared for.	Major national reform is planned in relation to what is currently referred to as Deprivation of Liberty Safeguards (DoLS). Code of Practice consultation to occur and then implementation of the new regulations. This will include children 16 years and above. This audit will seek to provide assurance that the Council is sufficiently managing the risks associated with the transition to the new arrangements appropriately, which includes children as well as adults. At the time of writing this Plan consultation on the Code is expected to start in April 2022 with the date for implementation not yet confirmed but expected to be in 2023.

Reference	Audit Title	Risk Justification	Proposed Objective / Coverage
ASC3	Transforming Mental Health	Vulnerable adults could be put at risk of avoidable harm if they do not have timely access or quality of mental health service provision. Legal, reputational and financial risks.	A Section 75 review is planned by the Service which will include a root and branch diagnostic followed by planning design work. Internal Audit will align with this process and seek assurance from it where possible to prevent any duplication or resource implications.
ASC4	Safeguarding (Adults)	Vulnerable adults could be put at risk of abuse or avoidable harm if the Council does not have appropriate mechanisms in place to prevent, detect and investigate safeguarding incidents. This could cause reputational and financial damage to the Council and cause service disruption and / or degradation in the quality of service provision. It could also impact on recruitment and retention of practitioners and poor staff morale.	Supporting the service and the new Director of Safeguarding, through a consultancy piece of work evaluating control design and operating effectiveness of the quality assurance mechanisms and quadrant accountability in place in relation to safeguarding. To also examine the role and effectiveness of the Essex Safeguarding Board in ECC's role as the host authority.
ASC5	Management Information and Key Performance Indicators	Without effective management oversight and appropriately defined and timely KPIs, the Function will be unable to measure whether their focus on early	To provide assurance over ASC's performance management framework to ensure appropriate oversight of the strategies and key operational activities of the Function. To also look at whether KPIs are well defined, consistently measured and have clear ownership and accountabilities; and that they provide accurate and timely

Reference	Audit Title	Risk Justification	Proposed Objective / Coverage
		intervention and prevention is having the desired impact and is sustainable. Strategic objectives may not be achieved, nor poor performance identified so that it can be addressed promptly.	information to enable statutory returns to be submitted and benchmarking to drive improvements. Also links in with the Safeguarding consultancy review.
ASC6	Carers	One of the Council's 20 commitments as outlined in Everyone's Essex is as follows: *We will help those carers of all ages whose caring duties are impacting most on their wellbeing by achieving a step change in the advice, guidance and support we provide to support wellbeing and independence, and by targeting it at those who need it most*	This review will cover adult carers only and will include ECC's Carers' Strategy, support, carers' assessments and financial support. It will also include the delivery of third party commissioned arrangements such as Carers First, management information and key performance indicators.
ASC7	Individual Care Package Awards	Care packages could be awarded without due diligence / authorisation controls and / or that do not comply with the Care Act.	To provide assurance over the robustness of the audit trails / decision making and oversight of individual care package awards to ensure that they are fair, consistent and Care Act compliant.
ASC8	Social Care Charging Reform Programme	Significant changes anticipated to processes, systems and resources to	In September 2021 plans were announced by the government to reform adult social care in England, which will be funded through a

Reference	Audit Title	Risk Justification	Proposed Objective / Coverage
		implement the new arrangements and ensure ECC complies with statutory requirements.	new Health and Social Care Levy. The proposed reforms will be supported by an investment of £5.4 billion over the next three years. Changes to social care charging will be implemented from October 2023, including a new £86,000 cap on the amount anyone in England will have to spend on their personal care over their lifetime (irrespective of age or income) and care accounts to be introduced to monitor individuals' accrued costs towards the cap. It is expected that the cap will be based on the framework provided for by the Care Act 2014.
ASC - ER	Emerging Risks	N/A	Additional work in this area could include but is not restricted to: • Preparedness of introduction of CQC inspection of Adult Services • Health and Care Bill 2021
Children and Families and Education			
CFE1	Schools Establishment Reviews	Financial, governance and reputational risks.	To visit a small sample of individual schools throughout the year on a risk-based approach.
CFE2	Schools Financial Value Standard (SFVS) and Assurance Statement	Local authority maintained schools must submit the schools financial value standard (SFVS) to their local authority annually. ECC then submits to the Department for Education an assurance statement every year to cover all the maintained schools in Essex (excluding Southend and Thurrock)	Internal Audit are tasked with collecting and checking all maintained schools SFVSs.

Reference	Audit Title	Risk Justification	Proposed Objective / Coverage
CFE3	Education Information Management System	Key fundamental system for management information relating to education, from birth.	To review the robustness and effectiveness of the Council's education information management system (Capita One) which is used for transport, school admissions, special educational needs and early years. The scope of the review may include, but will not be limited to, business continuity arrangements, contract management, incident management, service level agreements, financial controls and data quality, access permission controls, management oversight, supplier / system resilience and contingency arrangements.
CFE4	Supporting Families Programme	The programme conducts targeted interventions for families experiencing multiple problems, including crime, anti-social behaviour, truancy, unemployment, mental health problems and domestic abuse.	The Ministry of Housing Communities and Local Government (MHCLG) requires that 10% of each claim is internally audited and that the whole claim is certified by Internal Audit. Claims are submitted quarterly. This was previously known as the Troubled Families Scheme. This links the following Council's commitments: • Outcomes for vulnerable children • Levelling up outcomes for families • Safety • Family resilience and stability. • Education outcomes
CFE5	Social Care Case Management Platform	Major Programme with financial, technological, legal and reputational risks. The system is used to record and manage children and adults receiving social care. If the Programme is not managed well it could lead to poor use of resources, lack of staff morale,	Cross cutting with **Adult Social Care** and **Corporate Services** (Finance, Technology and Procurement). A watching brief over the Programme working alongside our Delivery Assurance colleagues.

Reference	Audit Title	Risk Justification	Proposed Objective / Coverage
		increase in staff turnover, negative impact on service users / service provision and key stakeholders. The system is also used to generate statutory returns and could impact on future results of Ofsted and CQC Inspections.	
CFE6	Youth Offending – IT systems and key performance data	Decisions may be made on incomplete or inaccurate key performance data. IT systems may not be fit for purpose or include appropriate internal controls to ensure integrity of data, information governance, business continuity.	To provide assurance over the robustness of their IT systems, data quality and key performance information.
CFE7	Personal Budgets / Direct Payments to Families	Financial, reputational, fraud, safeguarding and legal risks if budgets are not aligned to care plans and ECC do not fulfill their legal duties. Also risks around budgets not being fair, transparent or used for the purposes they are intended for.	To include award, monitoring and review of personal budgets, alignment to care plans and management oversight.

Reference	Audit Title	Risk Justification	Proposed Objective / Coverage
CFE8	Initial Teacher Training Bursaries	Annual grant claim required to be certified by Internal Audit.	Previously known as School centred initial teacher training grant. Audit to be carried out in accordance with grant claim terms and conditions. Year end is 31 July 2022 with deadline for submission of claim by 31 December 2022.
CFE - ER	Emerging Risks	N/A	Additional work in this area could include but is not restricted to: • replacement of schools info link platform • foster carers – improving digital access and engagement • placement sufficiency for children in care
Chief Executive			
CE1	Delivery of Everyone's Essex	Significant reputational and financial risks if ECC does not deliver successfully on its strategy.	Everyone's Essex (2021 to 2025) is the Council's Strategic Plan for levelling up the county and sets out 20 commitments for the next 4 years focusing on 4 key areas: • the economy • the environment • children and families • promoting health, care and wellbeing for all ages This audit review will look at the governance structures, accountability, links to Functional business plans and staff performance objectives, delivery plans, spending priorities and decisions, measurement of success criteria and reporting (to monitor and evaluate the effectiveness of the strategy, to provide insight and in particular, the differential impacts in relation to the national levelling up agenda) whilst recognising that this will be the first year of its implementation.

Counter Fraud Prevention, Detection and Investigation Plan			
Prevention and Detection			
Adult Social Care	Fraud Awareness Workshops - programme of fraud awareness training sessions / Fraud Awareness Week Comms etc	Fraud awareness.	Fraud awareness workshops (virtual). Programme scheduled with ESCA to provide fraud quarterly awareness sessions for social workers.
	Fraud Risk Workshops / Update Fraud Risk Register	Fraud awareness.	Annual workshops with service areas to update fraud risk register.
	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).
	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.
	CIPFA Tracker Survey / Benchmarking Activity	Benchmarking against similar authorities.	Annual completion of CIPFA Tracker and Benchmarking Data (with Counter Fraud Hub).
	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.

	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.
Adult Social Care, Children Families and Education, Environment Investment and Public Health, Corporate Services	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: • ASC data • Payroll • Grant claims and additional funding • Foster Carers payments • Early Years Funding • Public Health.
	National Fraud Initiative (NFI)	Fraud Prevention & Detection.	Data sets due to be submitted during September/ October 2022 and matches returned during February / March 2023 for investigation. Matches include payroll, pensions, creditors, blue badge, concessionary travel and mortality matches. Investigation will run to Autumn 2023 due to volume of matches.
	NFI Fraud Hub	Fraud Prevention & Detection.	Monthly submission of data sets to the NFI Hub for matching against mortality records. Data sets submitted in relation to ECC Pensions and Blue Badge data.
Investigation and Sanction			
All Functions	Investigations - Referrals and Case Investigation (reactive, including advice & guidance)	Investigation.	Log, prioritise and investigate referrals.
	Blue Badge Referrals	Investigation.	Log, prioritise and investigate referrals.

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 2022/23 Internal Audit and Counter Fraud Plan on the basis that actions have been addressed.

Risk and **Health & Safety** were both audited in 2020/21 and 2021/22 (with adapted scope to ensure sufficient breadth of potential areas to examine between years). An overall 'Risk Maturity' audit against the established 'ALARM' Risk Management Framework has been included in the 2022/2023 Plan.

The new **Business Continuity** system was reviewed in 2021/22 and received a Satisfactory Assurance opinion. Business Continuity is included in the 2022/23 Plan with a change of scope compared to the prior year.

In 2023 an external review will be commissioned to check Internal Audit's compliance with the Public Sector Internal Audit Standards. This is required every 5 years. In the intervening years a self-assessment is undertaken.

Agenda Item 6
AGS/07/22

Report title: Internal Audit Charter	
Report to: Audit, Governance and Standards Committee	
Report author: Paula Clowes, Head of Assurance	
Date: 21 March 2022	**For: Approval**
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 The Internal Audit Charter is a formal document that defines Internal Audit's purpose, authority, responsibility and position within Essex County Council (ECC).

2. Recommendations

2.1 The revised Charter be 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.

3.2 The refreshed Charter is attached at appendix 1.

3.3 The following changes have been made as part of the annual review for 2022:

- Dates changed

4. Links to our Strategic Ambitions

4.1 Internal Audit and Counter Fraud activity is critical in ensuring that the Council successfully mitigates its risks in all areas of work and that the public purse is protected to ensure that available resources reach those most in need. This report links to the following aims in the Essex Vision:

- Enjoy life into old age
- Provide an equal foundation for every child
- Strengthen communities through participation
- Develop our County sustainably
- Connect us to each other and the world
- Share prosperity with everyone

4.2 This report links to the following strategic priorities in the emerging Organisational Strategy 'Everyone's Essex':

- A strong, inclusive and sustainable economy
- A high quality environment
- Health wellbeing and independence for all ages
- A good place for children and families to grow

5. Financial implications

5.1 There are no financial implications as the risk management activity will be met within existing resources.

6. Legal implications

6.1 There are no legal implications

7. Equality and Diversity Considerations

7.1 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.

7.2 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).

7.3 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.

8 List of Appendices

Appendix 1 - Internal Audit Charter 2022

9 List of Background papers

Public Sector Internal Audit Standards
Internal Audit Charter

2022/2023

Essex County Council

Internal Audit Charter

Protecting the Public Purse

Going Beyond Compliance

Delivering Strategic Value

Version	2022/23
Approved By	Audit, Governance and Standards Committee
Date Approved	
Author	Paula Clowes, Head of Assurance (Chief Audit Executive)
Next Review Date	March 2023
Date Issued	21 March 2022

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 it's 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'.

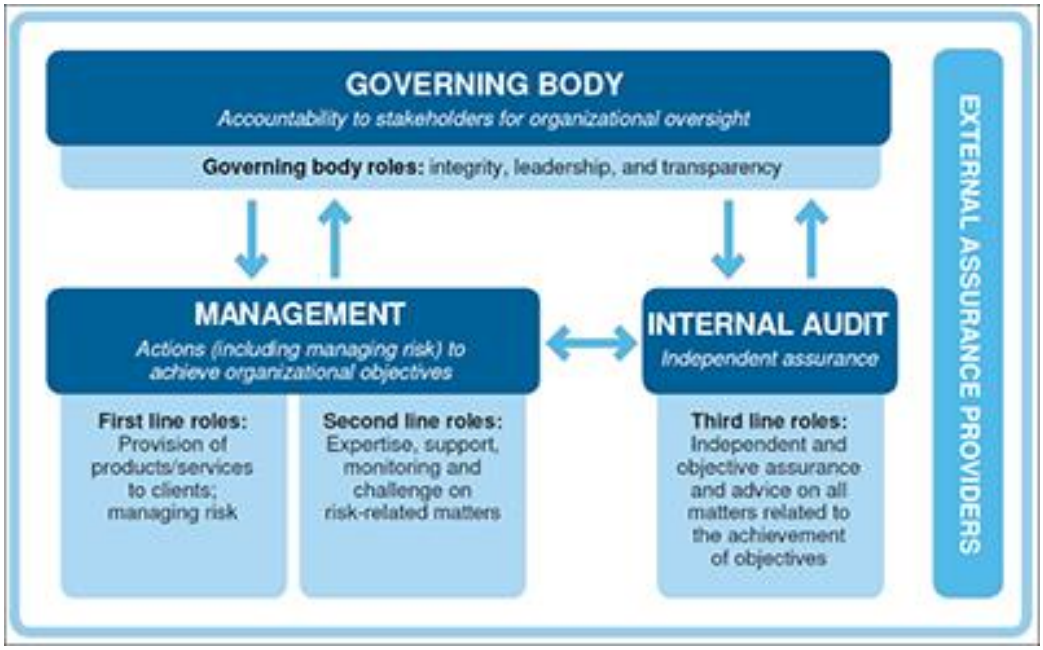
2 - Purpose, Activities and Scope

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 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:

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- **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)**

Report title: LGA Model Code of Conduct	
Report to: Audit, Governance and Standards Committee	
Report author: Paul Turner, Director, Legal and Assurance and Monitoring Officer	
Date: 21 March 2022	**For:** Decision
Enquiries to Paul Turner, paul.turner@essex.gov.uk	
County Divisions affected: All Essex	

1. Purpose of report

1.1 This report asks the Committee to adopt the revised LGA model code of conduct. 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 makes a recommendation to Council that Essex County Council should adopt the LGA Model Code of Conduct with effect from 1 June 2022.

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. Central government still has not yet responded to the recommendations and we do not yet know when it will react, although a response is said to be expected soon.

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. A ‘model’ code was produced by the Essex authorities in 2012 but almost all authorities – including ECC – have amended the ‘model’ code to reflect their own circumstances. Over time the authorities have carried out further reviews and most authorities are now using a code which, though based on the original Essex Code, has significant differences.

3.3 This has a particular impact on members of ECC given that 84% of the members elected in May 2021 are members of at least one other authority,

and 20% are a member of two other authorities. It is possible that a member may be subject to four different codes of conduct at different times.

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 the benefits of all Essex local authorities using the same code, could be thought to outweigh these disadvantages.

3.5 In December 2020 the LGA code was published. The Committee considered the draft code in March 2021 but most Essex authorities were not at that stage intending to adopt it. This was because there were a number of concerns about the clarity of the rules about declaring interests. As a result this committee decided not to recommend adoption, but to keep a watching brief on the situation.

3.6 In May 2021 the LGA published a revised version of the model code. This addresses the main concerns that monitoring officers had with the LGA code. Essex monitoring officers met and decided that they would explore with their authorities whether or not they would be prepared to adopt the model code, with most monitoring officers feeling that they would be prepared to recommend it to their authorities and that the 2022 annual meeting would be a good time for the new code to take effect.

3.7 A quick survey of monitoring officers carried out before this meeting suggests that there has been a significant shift in opinion across the Essex authorities and most authorities are now working towards adopting the LGA code, although given that there are thirteen local authorities in the county it is perhaps unlikely that all thirteen will adopt by June 2022.

3.8 It therefore seems sensible to review whether ECC should now adopt the national code. ECC members have the most to gain from a single code.

What would adopting the Code mean?

3.9 If ECC adopts the code then we will need to ensure that there is a programme of communications and training for all councillors. In terms of the key differences it is useful to consider three aspects of the code –

- rules of behaviour
- registration of interests and gifts
- declaring interests.

3.10 **The rules of behaviour** are very similar to the current ECC code. The rules on non-discrimination are slightly different and would allow an argument that a decision taken by a cabinet member is a breach of the code if it discriminates. However, such a complaint would not be likely to be investigated as under our current policy, so this is unlikely to create any problems in practice. The LGA code includes a definition of bullying, something which our code does not have. The Committee on Standards in Public Life recommends that local authorities include such a definition in their code.

3.11 **The rules about registering interests** would mean that fewer interests would be required to be registered under the LGA code than under the current ECC code. Members would no longer be required to register:

- tenders submitted to ECC within the last two years
- contracts with ECC which have expired in last two years
- contracts with ECC subsidiary companies.

3.12 This would perhaps slightly reduce transparency, but members would still be required to register live contracts with the Council.

3.13 The **threshold for registration of gifts and hospitality** would be increased from £25 to £50. Gifts or hospitality under £50 would not need to be registered. The £25 limit was set in 2001 so is due for a review; many other authorities have increased the registration threshold. In addition there is a requirement in the code to register offers of gifts/hospitality over £50 which have been refused – this is not in our current code.

3.14 **The rules on declaring interests** and leaving the room are similar to the current rules. They are more nuanced than the current rules although they are likely to operate in a similar way. For example, different rules apply where a decision *affects* your interest than if it *directly affects it*. In practice this does mean that district councillors will be unable to consider a matter which directly affects the other authority, although ECC will be able to grant dispensations. As an example, the Council currently grants a dispensation relating to membership of another local authority which allows members to speak and vote on matters relating to their other authority.

Other considerations relating to the model code

3.15 The LGA code is likely to be reviewed regularly. Every time it changes ECC will need to consider to updating its own code to reflect the changes in the national code. The LGA have indicated that the code won't change in 2022.

3.16 If we adopt the model code, all members will need to review their register of interests as the requirements for registration are slightly different, although the requirements of the LGA code are slightly simpler.

Disclosable Pecuniary Interests

3.17 Most conflicts of interest arise between members are disclosable pecuniary interests. The current rules are set by law and won't change as a result of adopting the code.

Conclusion

3.18 The version of the LGA code published in May 2021 is a significant improvement from previous versions. Moving to the national code can only help the council demonstrate high standards of conduct and it will make things much simpler for members who are twin hatted, if their district also adopts the

model code. On balance it is now recommended to adopt the code of conduct.

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, current version.

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.

Approved 3rd 12.2020
Updated 19 January and 17 May 2021

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, intimidatory 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 your 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 authority 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 the financial interest or wellbeing of 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. Otherwise you 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 relative or close associate; or
   c. a financial interest or wellbeing of a body included under Other Registrable Interests as set out in **Table 2**

   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 (referred to in paragraph 8 above*)* ***affects*** the 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. Otherwise you 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 an Other Registerable Interest or Non-Registerable 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]

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Updated 19 January and 17 May 2021

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.
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

	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 — (a) under which goods or services are to be provided or works are to be executed; and (b) which has not been fully discharged.
Land and Property	Any beneficial interest in land which is within the area of the council. '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.
Licenses	Any licence (alone or jointly with others) to occupy land in the area of the council for a month or longer
Corporate tenancies	Any tenancy where (to the councillor's knowledge)— (a) the landlord is the council; and (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.
Securities	Any beneficial interest in securities* of a body where— (a) that body (to the councillor's knowledge) has a place of business or land in the area of the council; and (b) either— (i)) the total nominal value of the securities* exceeds £25,000 or one hundredth of the total issued share capital of that body; or (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

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Updated 19 January and 17 May 2021

	spouses/civil partners have a beneficial interest exceeds one hundredth of the total issued share capital of that class.

* ‘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 Registrable Interests

You must register as an Other Registerable Interest :

a) any unpaid directorships

b) any body of which you are a member or are in a position of general control or management and to which you are nominated or appointed by your authority

c) any body
(i) exercising functions of a public nature
(ii) 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)

of which you are a member or in a position of general control or management

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.

Agenda Item 8
AGS/09/22

Report title: Regulation of Investigatory Powers Act 2000: Review of Activity March 2022	
Report to: Audit, Governance and Standards Committee	
Report author: Paul Turner - Director, Legal and Assurance	
Date: 21 March 2022	**For:** Noting
Enquiries to: Paul Turner – Director, Legal and Assurance paul.turner@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 the Counter Fraud team and other areas of the Council that undertake directed surveillance in accordance with the Regulatory and Investigatory Powers Act 2000.

1.2. 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 2021.

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 2021.

3. Regulation of Investigatory Powers Act

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.

4. The Council's Surveillance Activity

4.1. The Council does not generally undertake surveillance or use CHISs in a way which needs to be authorised under the Act. The last written report to the committee was made in March 2021, when a report that no authorisations had been sought or granted. Similarly, between March 2021 and February 2022 no authorisations have been sought or granted. The Council has worked with the police on joint operations. In these cases the Police normally are the lead authority and 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.

4.2. 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.

4.3. 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. Links to our Strategic Ambitions

4.1 Surveillance activity may sometimes be required to ensure that the public purse is protected and ensure that available resources reach those most in need. This report links to the following aims in the Essex Vision.

- Enjoy life into old age
- Provide an equal foundation for every child
- Strengthen communities through participation
- Develop our County sustainably
- Connect us to each other and the world

- Share prosperity with everyone

4.2 This report links to the following strategic priorities in the emerging Organisational Strategy 'Everyone's Essex':

- A strong, inclusive and sustainable economy
- A high quality environment
- Health wellbeing and independence for all ages
- A good place for children and families to grow

5. Financial implications

5.1 Appropriate and compliant use of RIPA has no direct financial implications

6. Legal implications

6.1 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.

7. Equality and Diversity Considerations

7.1 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.

7.2 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).

7.3 As we have not undertaken any Directed Surveillance or use of a CHIS there are unlikely to be an equality impacts.

8 List of Appendices

None

9 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 Closure of Accounts 2021/22	
Report to Audit, Governance and Standards Committee	
Report author: Nicole Wood, Executive Director, Corporate Services	
Date of meeting: 21 March 2022	**For:** Approval
Enquiries to: Nicole Wood, Executive Director, Corporate Services **email** nicole.wood@essex.gov.uk or Christine Golding, Chief Accountant **email** christine.golding@essex.gov.uk	
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 2021/22 accounts, and for production and approval of the Statement of Accounts.

2. Recommendations

2.1 The Committee notes the current arrangements for closure of the Council's Accounts for the 2021/22 financial year, and the present uncertainties that may impact on our ability to publish the draft Accounts ahead of the statutory deadline to do so.

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** (as amended).

3.3 Currently, the statutory timelines for the 2021/22 Accounts are as follows:

- Publication of draft accounts for inspection: **31 July 2022**.
- Publication of final, audited accounts: **30 September 2022**.

However, in December 2021, the Government announced that secondary legislation would be introduced which, if enacted, will extend the timeline for publication of audited accounts for 2021/22 from 30 September to **30 November 2022**.

3.4 It is currently intended that the draft accounts for 2021/22 will be produced by **30 June 2022**, in line with the timescales achieved in 2019/20 and 2020/21. However, at the time of writing, it remains unclear when the audit of the Council's 2020/21 Accounts will be finalised. If the audit is not concluded soon, it may not be possible to produce and publish draft accounts for 2021/22 by **30 June 2022**.

3.5 The Council would be able to defer publication of the draft Statement of Accounts by one month (to **31 July 2022**) and still remain in line with the statutory timetable. If preparation of the 2021/22 accounts is deferred beyond **31 July 2022**, it would be necessary to publish a notice on the Council's website to explain why.

3.6 The following paragraphs explain the arrangements in place for producing the 2021/22 Accounts on the basis that this activity will be completed by **30 June 2022**.

4. Arrangements for closure of the 2021/22 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 2022.
- Expenses incurred but not yet paid at 31 March 2022.
- Any amounts already received/paid that relate to goods or services to be provided or received after 31 March 2022.
- Any amount that may need to be paid to settle an obligation that exists at 31 March 2022, 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 **5 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 **5 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, 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 2022.

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 will consolidate the Council's own accounts with those of Essex Cares Ltd and the Essex Housing Development LLP, with transactions between all three entities being eliminated on consolidation.

4.10 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 2021/22.

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 As part of the series of measures announced by the Government in **December 2021** to improve timeliness of auditor reporting, CIPFA/LASAAC recently consulted on two time-limited changes to the Accounting Codes for 2021/22 and 2022/23. There were two consultation proposals:

- Pause the requirements for professional valuation of operational property, plant and equipment assets in the 2021/22 Code and (at least) the 2022/23 Code, with the possibility of mitigating the effect of this through the application of centrally determined indices.
- Deferring the implementation of International Financial Reporting Standard 16 Leases (**IFRS 16**) until 2023/24 (this accounting standard is currently due to be adopted in the 2022/23 accounts).

CIPFA/LASAAC is clear that these measures are proposed as a temporary expedient to help improve an unacceptable position, and that they do not represent the best form of financial reporting that CIPFA/LASAAC seeks to promote in every edition of the Accounting Code.

5.3 The consultation closed on **3 March 2022**. At the time of writing, the outcome of the consultation is unknown. However, if the consultation proposals related to the 2021/22 Accounting Code are endorsed, it is anticipated that the amended Accounting Code will come into force before **31 March 2022**.

5.4 For the time being, work continues, on the basis that neither of the above proposals are endorsed.

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

6.1 It is currently anticipated that the draft Statement of Accounts for 2021/22 will be ready by the end of June 2022. On that basis, the draft accounts will be:

- Presented to the Audit, Governance and Standards Committee for information on **27 June 2022**.
- Released for public inspection and external audit on **1 July 2022**.

6.2 However, as already noted, if it is not possible for the external auditor to issue the opinion on the 2020/21 accounts soon, there may be some slippage in the above timelines.

6.3 As already noted, it is anticipated that the deadline for publication of final, audited, accounts for 2021/22 will be deferred from **30 September 2022** to **30 November 2022**. That being the case, it is expected that the Audit Completion Reports for the Council and Essex Pension Fund will be presented to the Committee in late November, at which stage, the Committee will also be asked to approve the Statement of Accounts for publication.

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 has still not provided the timetable and guidance on the arrangements for production and audit of the 2020/21 WGA return. It is not therefore possible to estimate the timelines and arrangements for completion of the 2021/22 WGA return yet.

8. External Audit Plan

8.1 Because of the delay to completion of the 2020/21 audit, production of the Audit Planning Reports for 2021/22 have also been delayed. These will be produced and presented to the Committee as soon as possible after conclusion of the 2020/21 audit.

8.2 The Audit Planning Reports will explain the work that BDO LLP plans to perform to provide their opinion on the Council's and Essex Pension Fund's Financial Statements for 2021/22, and their commentary on the Council's arrangements to secure value for money in its use of resources.

8.3 The Audit Planning Reports will also include the proposed fees for the 2021/22 audit.

9. Policy context and Outcomes Framework

9.1 The Statement of Accounts for 2021/22 will summarise the financial performance and financial position for the Council for the year ending 31 March 2022. As such, the Statement of Accounts will provide a financial representation of activities during 2021/22 against the Organisation 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 over a relatively short period of time. Whilst the Finance team is appropriately resourced for closure activity in normal circumstances, it is not resourced to continue to support the 2020/21 audit and WGA processes alongside of this activity. Therefore, whilst closure related activity for 2021/22 will continue to be prioritised, it is possible that there will be some slippage against the current plan for the 2021/22 Accounts.

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 Completion Report for the Essex Pension Fund
Report to Audit, Governance and Standards Committee	
Report author: Nicole Wood, Executive Director, Corporate Services	
Date of meeting: 21 March 2022	For: Noting
Enquiries to: Nicole Wood, Executive Director, Corporate Services **email** nicole.wood@essex.gov.uk or Samantha Andrews, Investment Manager **email** samantha.andrews@essex.gov.uk	
Divisions affected: All Essex	

1. Purpose of report

1.1 The purpose of this report is to present BDO's 2020/21 Audit Completion Report for the Essex Pension Fund, as appended.

2. Recommendations

2.1 None – the report is for information only.

3. Background and proposals

3.1 The responsibilities of auditors are derived from statute, principally the Local Audit and Accountability Act 2014 and from the National Audit Office (NAO) Code of Audit Practice 2020.

3.2 The NAO Code of Audit Practice requires BDO to report to those charged with governance on the work they have carried out to discharge their statutory audit responsibilities.

3.3 BDO regard Essex County Council's Audit, Governance and Standards Committee as the member forum ultimately responsible for the governance of the Essex Pension Fund. However, BDO also report their findings to the Essex Pension Board ahead of the Audit, Governance and Standards Committee meeting.

3.4 The attached report summarises the findings from the 2020/21 audit. It includes the messages arising from BDO's audit of the Essex Pension Fund's financial statements.

3.5 BDO welcome the opportunity to discuss this report with the Committee.

4. Policy context and Outcomes Framework

4.1 The Audit Completion Report provides a summary of the findings from BDO's audit work on the financial statements of Essex Pension Fund.

5. Financial Implications

5.1 The Audit Completion Report sets out the audit fees payable in relation to the audit of the Essex Pension Fund financial statements for the 2020/21 financial year.

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

9.1 Essex Pension Fund Audit Completion Report for 2020/21.

10. List of Background Papers

10.1 None

Report to the Audit, Governance and Standards Committee

ESSEX PENSION FUND

Audit Completion: year ended 31 March 2021

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BDO

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WELCOME

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We have pleasure in presenting our Audit Completion Report to the Audit, Governance and Standards Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the results of completing the planned audit approach for the year ended 31 March 2021, specific audit findings and areas requiring further discussion and/or the attention of the Audit, Governance and Standards Committee. At the completion stage of the audit it is essential that we engage with the Audit, Governance and Standards Committee on the results of our audit of the financial statements comprising: audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We look forward to discussing these matters with you at the Audit, Governance and Standards Committee meeting and to receiving your input.

In the meantime if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

We would also like to take this opportunity to thank the management and staff of the Council for the co-operation and assistance provided during the audit.

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

8 March 2022

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Engagement lead

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. This report has been prepared solely for the use of the Audit, Governance and Standards 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.

OVERVIEW

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This summary provides an overview of the audit matters that we believe are important to the Audit, Governance and Standards Committee in reviewing the results of the audit of the financial statements for the year ended 31 March 2021.

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

Overview

Our audit work on the financial statements is substantially complete. Nothing has come to our attention from the work we have completed to date that would result in a modification of our audit opinion.

Outstanding matters are listed on page 34 in the appendices.

We presented our Audit Planning Report to the Audit, Governance and Standards Committee in March 2021. There have been no significant changes to the planned audit approach and no additional significant audit risks have been identified.

No restrictions were placed on our work.

Audit report

We anticipate issuing an unmodified audit opinion on the financial statements.

THE NUMBERS

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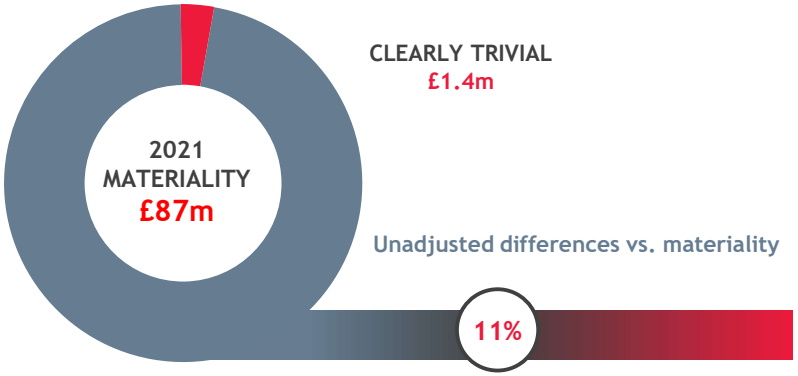
Final materiality

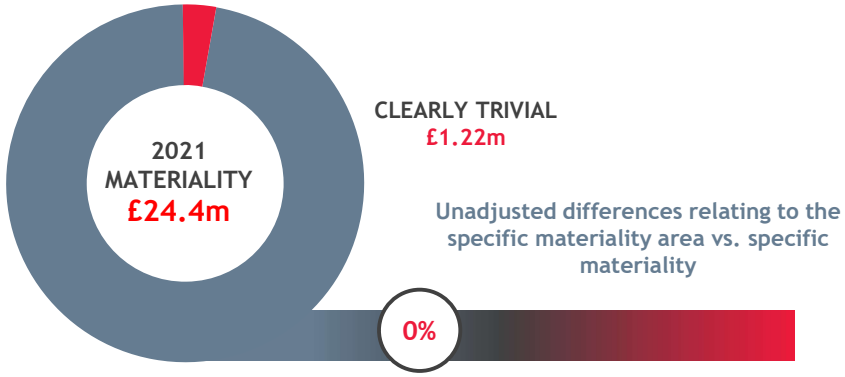
Financial material was determined based on 1% of net assets. Specific materiality (at a lower level) was set for the fund account balances (excluding changes in market value of investments) and this was based on 7.5% of gross expenses in the Fund Account.

Following the receipt of the draft financial statements for audit, we updated the material figures. This increased materiality from £84.7m to £87m. Specific materiality for the Fund Account was decreased from £24.6m to £24.4m to reflect actual gross expenditure recognised in the statement of accounts presented for audit. The percentage threshold applied remained at 7.5%.

FINANCIAL STATEMENTS MATERIALITY



FUND ACCOUNT MATERIALITY



Material misstatements

We did not identify any material misstatements.

Unadjusted audit differences

We identified one audit adjustment that, if posted, would reduce 'Net decrease in the assets available for benefits during the year' in the Fund Account and increase 'Net assets of the scheme available to fund benefits' in the Net Asset Statement by £9.529 million.

OTHER MATTERS

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Financial reporting

- We have not identified any non-compliance with accounting policies or the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21
- No significant accounting policy changes have been identified impacting the current year
- Going concern disclosures are deemed sufficient
- The Annual Report and other information included in the Statement of Accounts with the financial statements is consistent with the financial statements and our knowledge acquired in the course of the audit.

Other matters that require discussion or confirmation

- Control deficiency identified in relation to logical access controls over the UPM and Oracle IT applications (see page 21)
- Confirmation on fraud, contingent liabilities and subsequent events
- Letter of representation (see page 35)

Independence

We confirm that the firm and its partners and staff involved in the audit remain independent of the Council in accordance with the Financial Reporting Council's (FRC's) Ethical Standard.

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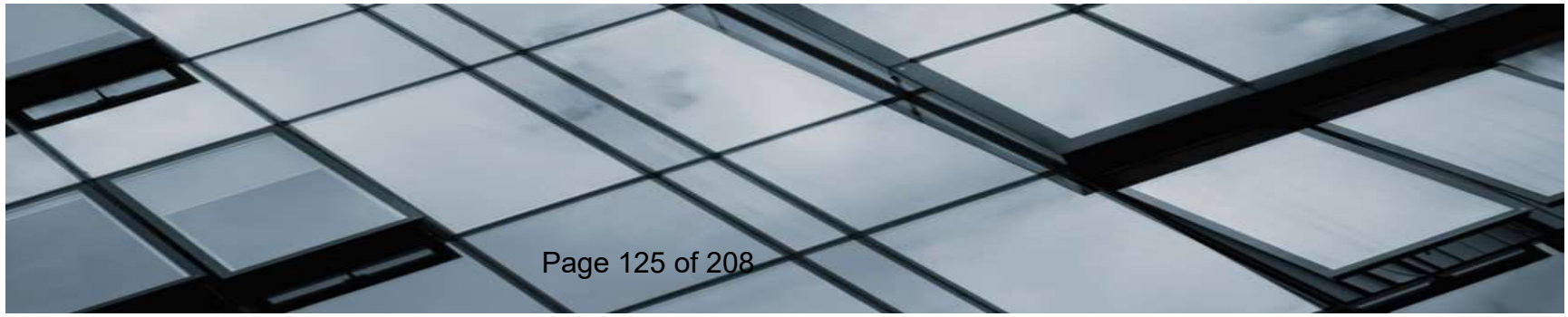
AUDIT RISKS OVERVIEW

As identified in our Audit Planning Report dated 10 March 2021 we assessed the following matters as being the most significant risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the engagement team.

Audit Risk	Risk Rating	Significant Management Judgement Involved	Use of Experts Required	Error Identified	Control Findings to be reported	Discussion points / Letter of Representation
Management override of controls	Significant	Yes	No	No	No	No
Valuation of investments (unquoted and direct property investments)	Significant	Yes	Yes	Yes, unadjusted	No	No
Pension Liability Valuation	Significant	Yes	Yes	No	No	No
Valuation of investments (pooled investments)	Normal	No	No	No	No	No
Contribution receivable	Normal	No	No	No	No	No

Areas requiring your attention



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MANAGEMENT OVERRIDE OF CONTROLS

ISA (UK) 240 notes that management is in a unique position to perpetrate fraud.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	■

Risk description

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.

Work performed

We carried out the following planned audit procedures:

- Reviewed and verified journal entries made in the year, agreeing the journals to supporting documentation; determined key risk characteristics to filter the population of journals; and used our IT team to assist with the journal extraction
- Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias
- Reviewed unadjusted audit differences for indications of bias or deliberate misstatement.

Results

Our work has not identified any evidence of systematic bias or management override in the processing of journal entries and other adjustments.

Material accounting estimates for the Pension Fund included valuation of investments and pension liability. Our audit work on these accounting estimates are set out in the following pages. The audit work performed provided reasonable assurance that the accounting estimates are reasonable and free from management bias.

Our review of the unadjusted audit differences (see page 18) has not identified any evidence of management bias or deliberate misstatement.

We have not identified any unusual transactions or transactions that are outside the normal course of business.

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	
Significant management judgement	■
Use of experts	■
Unadjusted error	■
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	■

Risk description

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.

Work performed

We carried out the following planned audit procedures:

- 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 was 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
- Ensured investments have been correctly valued in accordance with the relevant accounting policies.

VALUATION OF INVESTMENTS (UNQUOTED AND DIRECT PROPERTY INVESTMENTS) 2

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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	
Significant management judgement	■
Use of experts	■
Unadjusted error	■
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	■

Results and conclusions

Our review of the direct confirmations obtained from fund managers identified that the valuation of private equity was understated by a non material amount of £9.529 million. This variance is due to some investment reports used during the preparation of the financial statements not being coterminous with the pension fund's year-end. Management were therefore required to estimate the value of the affected investments. More recent valuations for these investments were available during our audit and, when compared to the amount recognised in the Net Assets Statement, identified the above variance against the estimates used. The variance identified is included within the uncorrected misstatements schedule (see page 18) for the impact of change in market value in the Fund Account and investment value in the Net Assets Statement.

For investments in private equity, illiquid debt, infrastructure and timberlands, we obtained audited financial statements of the underlying investee funds, and valuations were recalculated by adjusting the additional contributions and distributions where relevant. Given the extended period to prepare financial statements during the year, net asset statements at 31 March 2021 were available for the investment in illiquid debt, infrastructure and timberland. Our recalculations of valuations for these investment categories did not identify any variances outside of our threshold.

In respect of private equity, we reviewed a sample of audited financial statements of the underlying investee funds. Our recalculations of valuations for these investment categories did not identify any variances outside of our threshold.

The direct investment properties held by the pension fund have been valued by an external professional valuer. We are satisfied with the skills and expertise of the valuer and concluded that we can rely on them in their capacity as management's expert. Our review of the input used by the valuer (i.e. rental information) confirmed that they are accurate and reasonable.

The overall valuation of investment properties has increased by approximately 1.2% during the year to £406m. The MSCI sector capital value index has changed for the following sectors:

- Industrial – 9.3% increase
- Offices – 5.2% decrease
- Warehouses and shops – 13.2% decrease

Given the above movements and the weighting of property types held by the pension fund, the increase in investment property valuations of 1.2% is consistent with our expectations and is within our materiality of £87m. We are therefore satisfied that the valuation of direct properties held by the Pension Fund is reasonable.

Given current events in Ukraine, we have asked management whether the Pension Fund had any exposure to investments in Russian and/or Ukrainian companies at 31 March 2021 and whether it has any current exposure.

Management continue to liaise with fund managers and at the time of writing are obtaining details of any such investments, including the fair value of these investments at 31 March 2021. As this information becomes available, we will review it as part of our procedures relating to subsequent events (which remain in progress until we issue our audit opinion).

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PENSION LIABILITY VALUATION

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

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	■

Risk description

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.

Work performed

We carried out the following planned audit procedures:

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

PENSION LIABILITY VALUATION 2

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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	
Significant management judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	■

Results and conclusions

The Pension Fund has established controls and procedures to ensure completeness and accuracy of membership data provided to the actuary. Our review of the controls to ensure data provided to the actuary is complete and accurate did not identify any issues.

In respect of cash flow data provided to the actuary for the IAS 19 valuations, we identified no issues. However, testing of the cash flow data provided to the actuary for the roll forward valuation at 31 March 2021 identified some differences between the estimated contributions based on month 11 actual amounts plus one month of estimates and the actual amounts for the year, but we did not consider these to be significant differences that would materially impact on the liability valuation.

Our review of the reasonableness of assumptions used to calculate the present value of future pension obligations is noted on the following page. The annual data return template from the actuary included details of bulk transfers as these are estimated by the actuary. This data is subjected to data confirmation with individual employers to ensure that they are reasonable. We are therefore satisfied that any significant changes in membership data have been communicated to the actuary.

We agreed the disclosures in Note 3 to the pension fund financial statements to the information provided by the actuary and have identified no issues.

Following the ruling on age discrimination on the McCloud case and gender discrimination on a Lloyds case in the prior year, the actuary has made an allowance at the last accounting date and therefore was already included in the opening liability for this year. This allowance was therefore incorporated in the roll forward approach and the actuary has confirmed that this was re-measured 31 March 2021. The approach adopted by the actuary is considered reasonable.

PENSION LIABILITY VALUATION 3

Continued

Significant accounting estimate: Pension Liability

Overview

The key assumptions include estimating future expected cash flows to pay pensions including inflation, salary increases and mortality of members; and the discount rate to calculate the present value of these cash outflows.

Changes in 2020/21

The actuarial valuation of future benefits has increased by £2,730 million, from £9,259 million to £11,989 million.

Changes in assumptions that have increased the liability include a increase in CPI and future pension increases (from 1.90% to 2.80%) and a rise in salary increases (from 2.90% to 3.80%), which was partially offset by reduction to the discount rate (from 2.35% to 2%).

Mortality assumptions have not been changed significantly during the year, as such this has resulted in a decrease in the liabilities from these actuarial assumptions only by £105 million (1%). The liability has decreased by £126 million (1.2%) due to experience loss.

Discussion

The pension liability to pay future pensions has increased by £2,730 million to £11,989 million at 31 March 2021.

We compared the assumptions and estimates used by the actuary with the expected ranges provided by the independent consulting actuary PwC.

	Actual	Expected / range	Comments
RPI increase	3.20%	3.15% - 3.35%	Reasonable
CPI increase	2.80%	2.80% - 2.85%	Reasonable
Salary increase	3.80%	3.80% - 3.85%	Reasonable
Pension increase	2.80%	2.80% - 2.85%	Reasonable
Discount rate	2.00%	1.95% - 2.05%	Reasonable
Mortality - LGPS:			
- Male current	21.6 years	20.5 - 23.1	Reasonable
- Female current	23.6 years	23.3 - 25.0	Reasonable
- Male retired	22.9 years	21.9 - 24.4	Reasonable
- Female retired	25.1 years	24.8 - 26.4	Reasonable
Commutation:			
- Pre 2008	50%	50%	Reasonable
- Post 2008	50%	50%	Reasonable

All the financial and mortality assumptions are within the expected range based on national data and therefore the assumptions are considered to be reasonable. We are satisfied that the assumptions used are not unreasonable or outside of the expected ranges. We have requested specific representations from management to confirm that the assumptions used reflect their understanding of the future expectations of the scheme (see letter of representation on page 35).

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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	■
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

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.

Work performed

We carried out the following planned audit procedures:

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

Results and conclusion

The investment valuations included in the financial statements for pooled investments were agreed to the valuations provided by the fund managers with trivial variances.

We agreed that the investments have been correctly valued using the closing bid market price in line with the accounting policy.

We obtained independent assurance reports for each fund manager and the custodian and these did not reveal any issues with the effectiveness of controls operated by fund managers and custodian for valuations and existence of underlying investments in the funds. The assurance report for one of the fund managers was qualified in respect of IT system change management and logical access controls. Whilst we have not identified any control issues affecting the valuation and existence of investments managed by the fund manager in question, we agreed investments managed by the fund manager to independent market prices and confirmed that the valuations are accurate.

Where the assurance reports obtained were not coterminous with pension fund year end, we obtained bridging letters confirming the satisfactory operation of controls within the fund managers and the custodian to the 31 March 2021.

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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
Significant management judgement
Use of experts
Unadjusted error
Adjusted error
Additional disclosure required
Significant control findings to be reported
Letter of representation point

Risk description

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.

Work performed

We carried out the following planned audit procedures:

- Tested 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;
- Reviewed contributions receivable and checked that income is recognised in the correct accounting period where the employer is making payments in the following month; and
- Carried 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.

Results and conclusions

We carried out analytical procedures to establish expected normal and deficit contributions to be receivable during the year. Our analytical procedures used the prior year amounts received and these were adjusted for the known and expected changes during the year such as the change in membership, contribution rates and the deficit contributions set out in the actuary report. This produced expected normal and deficit contributions which were within our tolerable threshold.

We also substantively tested normal contributions for active members by agreeing a sample of contributions to payroll records and to the employer returns received. For a sample of active members we recalculated the employee and employer contributions by the relevant rates and confirmed the accuracy of calculations. We identified no issues from the testing.

For deficit contributions, we agreed a sample to the Actuary's report and identified no issues. We also reviewed monthly contributions received from employers and confirmed that these have been recognised in the correct financial year.

MATTERS REQUIRING ADDITIONAL CONSIDERATION

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Fraud

Whilst the Council (as administrating authority) and the Executive Director, Corporate Services 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 procedures did not identify any fraud. We will seek confirmation from you whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the Audit Planning Report on 10 March 2021.

Laws and regulations

The most significant considerations for your organisation are the:

- Local Government Acts of 1972 and 2003
- Local Government Finance Acts of 1988, 1992 and 2012
- Local Audit and Accountability Act 2014
- Accounts and Audit Regulations 2015
- VAT legislation
- PAYE legislation.

We did not identify any non-compliance with laws and regulations that could have a material impact on the financial statements.

Internal audit

We reviewed the audit work of the Council's internal audit function to assist our risk scoping at the planning stage.

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.

We did not identify and significant matters in connection with related parties.

Service auditor reports

We reviewed the service auditor reports in respect of the following Pension Fund functions that are outsourced to, or hosted by, other bodies:

- All investments are managed by Fund Managers

We reviewed all of the relevant service auditor control reports and identified some control reports with a number of exceptions during their control testing. We performed additional work for two of the service organizations to obtained additional assurance where the controls reports could not be relied upon,

UNADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year

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We are required to bring to your attention unadjusted differences and we request that you correct them.

We identified one audit adjustment that, if posted, would reduce the 'Net decrease in the assets available for benefits during the year' in the Fund Account and increase 'Net assets of the scheme available to fund benefits' in the Net Asset Statement by £9.529 million.

This audit adjustment is due to some private equity investment reports used during the preparation of the financial statements not being coterminous with the pension fund's year-end. Management were therefore required to estimate the value of the affected investments. More recent valuations for these investments were available during our audit and, when compared to the amount recognised in the Net Assets Statement, identified the above variance against the estimates used.

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UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

		Fund Account		Net Assets Statement	
Unadjusted audit differences	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Net increase in the assets available for benefits during the year	(2,111,511)				
1: Impact of brought forward unadjusted misstatements					
DR Changes in market value of investments	19,123	19,123			
CR Investments (opening balance at 1 April 2020)					(19,123)
2: The difference between the investment valuation per draft accounts and fund manager confirmations					
DR Investments				9,529	
CR Changes in market value of investments	(9,529)		(9,529)		
Total unadjusted audit differences	**9,594**	**19,123**	**(9,529)**	**9,529**	**-**
Net increase in the assets available for benefits during the year if above issues adjusted	(2,101,917)				

Further details relating to the impact of the brought forward adjustment of £19.123 million are included in our 2019-20 Audit Completion Report. This adjustment only affects the opening balance of investments at 1 April 2020 in the Net Asset Statement and has no impact on the value of investments at 31 March 2021. However, this adjustment does affect the changes in market values of investments (the overstatement of the opening investment balances means that the increase in market value recognised in the fund account is understated by the same amount).

ADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

Disclosure omissions and improvements

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We are required to bring to your attention other financial reporting matters that the Audit, Governance and Standards Committee is required to consider.

The following two disclosure adjustments were made by management:

- The removal of the £32.3m net transfer recognised on the UBS investments and recognition of an additional £32.3m in purchases for 'Equities - Unit life assurance policies' in note 12.2.
- The reduction in the sales and purchases recognised for 'Property unit Trusts' of £2.65m.

The above adjustments have no impact on the closing value of the associated investments.

A number of other minor disclosure corrections and enhancements were made to improve the clarity of the financial statements.

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We comment below on other reporting required to be considered in arriving at the final content of our audit report:

Matter	Comment
We are required to report on whether the financial and non-financial information in the Narrative Report is consistent with the financial statements and the knowledge acquired by us in the course of our audit.	We are satisfied that the other information in the Narrative Report is consistent with the financial statements and our knowledge.

OTHER DEFICIENCIES

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As the purpose of the audit is for us to express an opinion on the Council's financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

Area	Observation & implication	Recommendation	Management response
Oracle IT system	Upon review of the privileged accounts for Oracle across both the Council and Pension Fund, we identified one individual in the Council with administration level access when their job role (which involved processing and monitoring of transactions) did not require it. There is an inherent segregation of duties risk when an individual has administrative access rights to a system as well as a transaction processing / monitoring role on that system.	Assign administrative privileges to an independent individual with no transaction processing or monitoring role.	User permissions will be reviewed as part of the move to Oracle fusion. The Council agrees that no user should have both administration level access and transactional level access and confirms that the permissions granted to the individual identified will be amended.
Oracle & UPM IT system	There has not been any proactive monitoring of the login activities performed by privileged users during 2020/21. There is an inherent risk that without independent monitoring, the appropriateness of system administrative activity is dependent on the motivation of the individual. There is a greater risk that unauthorised transaction activity is performed and not detected.	Implement audit logging that records activity performed by administrative accounts at application and database level. Administrator activity should be independently monitored, investigated as appropriate and formally signed off by an independent reviewer.	For Oracle we will need to investigate this further with the suppliers. The Council is of the view that it would be best practice to audit such activity where feasible. UPM - A report will be run regularly to monitor access usage for privileged users. In addition, a process will be developed with the Fund's Compliance Manager to ensure oversight arrangements.

AUDIT REPORT OVERVIEW

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Opinion on financial statements

We anticipate issuing an unmodified opinion on the financial statements.

Conclusion relating to going concern

We have nothing to report in respect of the applicability of the going concern basis of accounting or the Pension Fund's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements.

There are no material uncertainties in relation to going concern disclosed in the financial statements of which we are aware that we need to draw attention to in our report.

Irregularities, including fraud

Our report will contain an explain to what extent the audit was considered capable of detecting irregularities, including fraud. Irregularities in this context means non-compliance with laws or regulations.

Other information

We have not identified any material misstatements that would need to be referred to in our report.

INDEPENDENCE

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

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 Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners 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 ended 31 March 2021.

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 on the following page and were provided in our Audit Planning Report. We understand that the provision of these services was approved by the Audit, Governance and Standards Committee in advance in accordance with the Council's policy on this matter.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Planning Report.

We have not identified any relationships or threats that may reasonably be thought to bear on our objectivity and independence.

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 or the IESBA Code of Ethics as appropriate and are independent of the Council.

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

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

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Fees summary	2020/21 Actual £	2020/21 Planned £	2019/20 Actual £
Fees			
Code audit fee (1)	£28,000	£28,000	£28,000
Additional fee for IAS19 assurance requests from scheduled bodies (2)	£6,500	£6,500	£12,250
Additional audit fee: Covid-19 remote working (3)	£5,000	£5,000	£0
Total fees	**£39,500**	**£39,500**	**£40,250**

(1) The 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.

(2) Assurance 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.

(3) Covid-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.

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RESTORING TRUST IN AUDIT AND CORPORATE GOVERNANCE

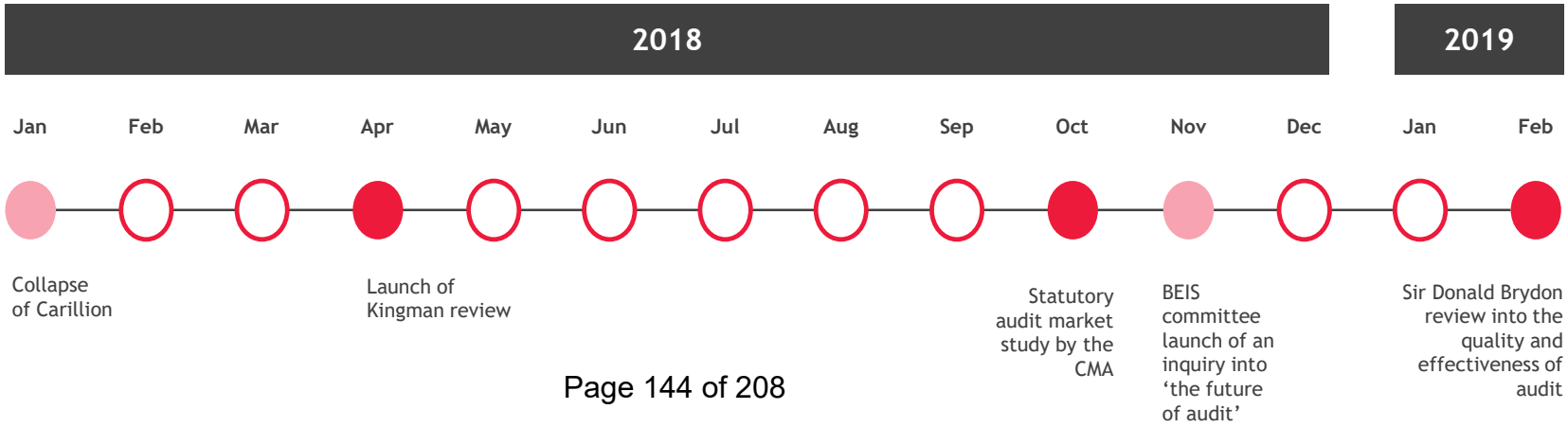
BEIS consultation issued March 2021

The collapse of Carillion at the beginning of 2018 precipitated a root and branch review of how the audit market works with three main components, all reporting to the Secretary of State for Business Energy and Industrial Strategy. The latest BEIS consultation as published in March 21 outlines proposals to increase choice and quality in the audit market, establish clearer responsibilities for the detection and prevention of fraud, and ensure the audit product and audit profession are fit for the future. The consultation aims to present measures that balance the need for meaningful reform with proportionate impacts on business, both now and for the future. The next pages aim to summarise the key areas of the consultation but for more information please refer to the consultation directly.

Although the consultation only closed in July 2021, changes have already begun: There are already a number of changes being made by the market participants themselves such as increased operational separation of audit from consulting and voluntary restriction of non-audit services. At BDO we support the aims of operational separation of audit practices. Without being complacent we do not have a large consulting practice like some of our rivals and we have always run our audit business to be independently and sustainably profitable, therefore the main causes of concern that this seeks to address namely cultural contamination and cross subsidisation are less relevant for us. We do however recognise that the profession needs to restore the confidence of users and operational separation or ring fencing is an important step on that journey. We have drawn up plans for how we would implement this and are currently consulting with stakeholders. Whilst full compliance is not required until 2024 we are likely to implement a number of aspects particularly around governance and financial transparency by July 2021.

Whilst there is some uncertainty regarding the timeline post the close of the consultation it is our understanding that the implementation of the Audit, Reporting and Governance Authority (ARGA) is likely to be in 2023.

HISTORIC CONSULTATIONS TIMELINE



BEIS CONSULTATION AT A GLANCE

Issued March 21

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Key Area of the BEIS consultation	Summary
1. Resetting the scope of regulation by expanding the definition of Public Interest Entities to include large private companies and "large" AIM quoted companies.	The government proposes two possible tests to extend the scope of PIES: To adopt the test used to identify companies already required to include a corporate Annual Governance Statement in their directors' report, or adopt a narrower test which incorporates the threshold for additional non-financial reporting requirements for existing PIEs. This would cover companies with both: Over 500 employees and a turnover of more than £500 million as their consolidated position. The Government is also proposing that any new definition of PIE should also include companies on the exchange-regulated AIM market with market capitalisations above €200m.
2. Increasing the accountability of directors	The consultation sets out a couple of options relating to directors accountability for internal controls and then indicates a tentative preferred option which would require a directors' statement about the effectiveness of the internal controls. Unlike the US's approach to internal controls which mandates external auditor attestation in most cases this option would leave the decision on whether the statement should be assured by an external auditor to the directors, audit committee and shareholders. This section of the consultation also includes proposals to require companies to report on their distributable reserves and for directors to be required to make a formal statement about the legality and affordability of proposed dividends.
3. New corporate reporting requirements	Introducing a requirement for PIEs to produce an annual Resilience Statement. This new statement consolidates and builds upon the existing going concern and viability statements and would apply initially to Premium Listed companies. Introducing an Audit and Assurance Policy where directors have to describe their approach to seeking assurance. For publicly quoted entities, this would be subject to an advisory shareholder vote at the time of its publication,
4. Strengthening the supervision of corporate reporting	Giving the Audit, Reporting and Governance Authority (ARGA) (which replaces the Financial Reporting Council) more power to direct changes to company reports and accounts. Creating increased transparency for the Corporate Reporting Review (CRR) process and an extension of the CRR process to the whole of the annual report and accounts. The Government proposes to broaden the regulator's review powers so that it can scrutinise the entire contents of a company's Annual Report and Accounts.

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BEIS CONSULTATION AT A GLANCE 2

Key Area of the BEIS consultation	Summary
5. Provisions concerning company directors	Giving the regulator investigation and enforcement powers in relation to wrongdoing by all directors of Public Interest Entities. Due to the principles of collective responsibility and a unitary board, all directors of Public Interest Entities would be in scope. Strengthening malus and clawback provisions within executive director remuneration.
6. Changes to audit purpose and scope	The Government will seek to introduce a regulatory framework to cover both audits of financial statements (statutory audit) and other types of information which companies decide to have audited through the Audit and Assurance Policy process. It also proposes to legislate to require directors of Public Interest Entities to report on the steps they have taken to prevent and detect material fraud.
7. Changes to audit committee oversight and engagement with shareholders	ARGA to establish a standards and supervision regime. ARGA will write the standards by which Audit Committees will need to operate and they will monitor compliance against these standards. Initially this will only apply to FTSE 350 Audit Committees. Additional requirements for audit committees in the appointment and oversight of auditors, which is intended to ensure the committee acts effectively as an independent body responsible for safeguarding the interests of shareholders. Increased engagement between a company and its shareholders. The Government agrees with Brydon's recommendation that the audit committee's annual report should set out which shareholder suggestions put forward for consideration had been accepted or rejected by the auditor.
8. Improved competition, choice and resilience in the audit market	The implementation of a managed shared audit regime for companies audited by the Big Four. The operational separation of certain accountancy firms. Statutory powers for the regulator to monitor the resilience of the audit market.
9. Greater supervision of audit quality	Making the regulator responsible for approving the auditors of PIEs and improving the transparency of Audit Quality Review reports by allowing AQR reports on individual audits to be published without consent.
10. A new and strengthened regulator; the Audit, Reporting and Governance Authority	The regulator will be given the power to make rules requiring market participants to pay a levy to meet the regulator's costs of carrying out its regulatory functions.
11. Additional changes to the regulator's responsibilities	The regulator will have the power to require an expert review where it has identified significant concern regarding a PIEs corporate reporting and auditing.

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FRC ETHICAL STANDARD

Issued in December 2019

In December 2019 the FRC published the Revised Ethical Standard 2019 ('ES'), which is applicable from 15 March 2020. There are some transitionary 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.

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.
Extra-territorial impact	For group audits where the audited entity has overseas operations, the ES will require all BDO Member firms to be independent of the UK audited entity and its UK and overseas affiliates in accordance with the UK Ethical Standard, irrespective of if their audit work is relied upon.
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.
Non-audit services to a public interest entity (PIE)	Moving to a "white-list" of permitted non-audit services for PIEs. The white-list largely consists of services which are either audit-related or required by law and/or regulation. The provision of services not on the white-list are prohibited. The ES separates those permitted services which are exempt from the 70% fee cap and those services which are subject to the fee cap.
Other entities of public interest ('OEPI')	OEPI is a new term in the Ethical Standard. The FRC have imposed the 'white-list' applicable to PIE audited entities to also apply to OEPIs. OEPIs are entities which, according to the FRC, do not meet the definition of a PIE but nevertheless are of significant public interest to stakeholders. They include AIM listed entities which exceed the threshold to be an *SME listed entity* - generally those with a market cap of more than €200m; Lloyd's syndicates; Private sector pension schemes with more than 10,000 members and more than £1billion of assets; Entities that are subject to the governance requirements of The Companies (Miscellaneous Reporting) Regulations 2018 (SI/2018/860), excluding fund management entities which are included within a private equity or venture capital limited partnership fund structure. These would be entities which: – Have more than 2000 employees; and / or – Have a turnover of more than £200 million and a balance sheet total of more than £2 billion. The FRC have noted that the rules applicable to OEPIs will apply from periods commencing on or after 15 December 2020.

FRC PRACTICE AID FOR AUDIT COMMITTEES

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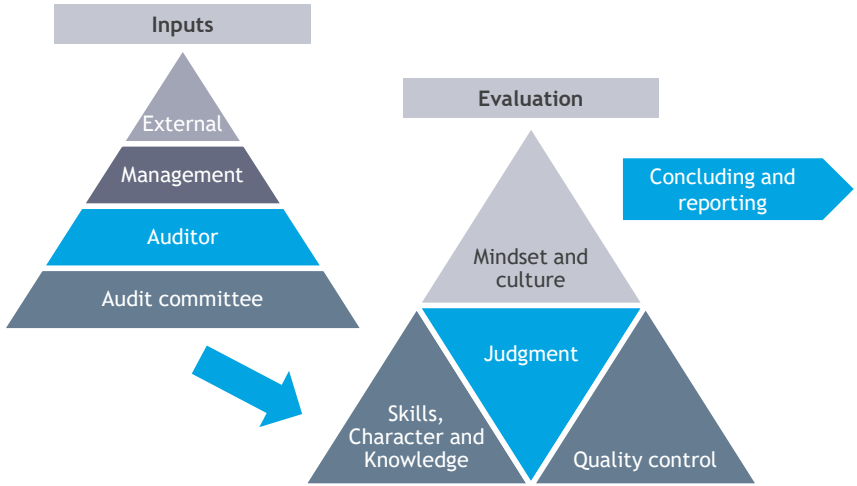
The Financial Reporting Council (FRC) issued an updated practice aid for audit committees in December 2019 and a full copy can be found on the FRC website. In their practice aid the FRC note: 'The directors of a company (the Board as a whole) are responsible for ensuring its financial statements are prepared in accordance with the applicable financial reporting framework and for overseeing the company's internal control framework. A high-quality audit provides investors and other stakeholders with a high level of assurance that the financial statements of an entity give a true and fair view and provide a reliable and trustworthy basis for taking decisions.'

The practice aid then discusses how the role of audit committees in serving the interests of investors and other stakeholders is through their independent oversight of the annual corporate reporting process including the audit. The FRC highlight that the responsibility for appointing the external auditor, approving their remuneration and any non audit services work, ensuring their independence and challenging them over the quality of their work falls to the audit committee and can play a key role in facilitating a high quality audit (see note below).

It gives guidance for Audit Committees in the following areas:

- Audit tenders and the tender process including audit fee negotiations and auditor independence
- A model for use by audit committees in making an overall assessment of an external auditor including inputs, evaluations and concluding



- Transparency - reporting to the Board on how the audit committee has discharged these responsibilities
- Some guidance on key areas of audit judgement

The provision of high quality audits are a key focus of FRC and the new Executive Director of Supervision, David Rule, sent a letter to all audit firms in November 2019 explaining the factors he would expect to see in place in order to facilitate the delivery of high quality audits. A copy of the letter can be found on the FRC website

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Our responsibilities and 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 officers of the Council.

We read and consider the 'other information' contained in the Statement of Accounts such as the Annual report. 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 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.

ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

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	Issue	Comments
1	Significant difficulties encountered during the audit.	No exceptions to note.
2	Written representations which we seek.	We enclose a copy of our draft representation letter.
3	Any fraud or suspected fraud issues.	No exceptions to note.
4	Any suspected non-compliance with laws or regulations.	No exceptions to note.
5	Significant matters in connection with related parties.	No exceptions to note.

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COMMUNICATION WITH YOU

Those Charged with Governance (TCWG)

References in this report to Those Charged With Governance (TCWG) 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 have met with management throughout the audit process. We have issued regular updates driving the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

Communication	Date (to be) communicated	To whom
Audit Planning Report	10 March 2021	Audit, Governance and Standards Committee
Audit progress report	At the Audit, Governance and Standards Committee meetings	Audit, Governance and Standards Committee
Audit Completion Report	21 March 2022	Audit, Governance and Standards Committee

OUTSTANDING MATTERS

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We have substantially completed our audit work in respect of the financial statements for the year ended 31 March 2021.The following matters are outstanding at the date of this report and could impact our audit opinion. We will update you on their current status at the Audit, Governance and Standards Committee meeting at which this report is considered:

- Clearance of residual review points
- 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
- Management letter of representation, as attached in Appendix D to be approved and signed.

LETTER OF REPRESENTATION

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Essex Pension Fund/address
To be printed on letter headed paper

BDO LLP
16 The Havens
Ransomes Europark
Ipswich
IP3 9SJ

Dear Sirs

Financial statements of Essex Pension Fund for the year ended 31 March 2021

We confirm that the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2021 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Executive Director, Corporate Services has fulfilled her responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and in particular that the financial statements give a true and fair view of the financial position of the Pension Fund as of 31 March 2021 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Pension Fund's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the Annual Governance Statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records of the Pension Fund have been made available to you for the purpose of your audit and all the transactions undertaken by the Pension Fund have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of management and other meetings have been made available to you.

Going concern

We have made an assessment of the Pension Fund's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements were approved for release. As a result of our assessment we consider that the Pension Fund is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis. Furthermore, we confirm that the disclosures included in note 2 to the financial statements are sufficient.

In making our assessment we did not consider there to be any material uncertainty relating to events or conditions that individually or collectively may cast significant doubt on the Pension Fund's ability to continue as a going concern.

Laws and regulations

In relation to those laws and regulations which provide the legal framework within which the Pension Fund's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

Post balance sheet events

Other than those disclosed in the financial statements, there have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

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Fraud and error

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

Misstatements

We attach a schedule showing uncorrected misstatements that you have identified, which we acknowledge that you request we correct. Where appropriate we have explained our reasons for not correcting such misstatements below. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements as a whole.

Related party transactions

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

Other than as disclosed in note 15 to the financial statements, there were no loans, transactions or arrangements between the Pension Fund and Council members or their connected persons at any time in the year which were required to be disclosed.

Carrying value and classification of assets and liabilities

We have no plans or intentions that may materially affect the carrying value or classification of assets or liabilities reflected in the financial statements.

Accounting estimates

The value at which investment assets are recorded in the net assets statement is the fair value. We are responsible for the reasonableness of any significant assumptions underlying the valuations, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the scheme. Any significant changes in those values since the year end date have been disclosed to you.

None of the assets of the scheme has been assigned, pledged or mortgaged. The following key assumptions have been used to calculate the actuarial present value of future pension benefits disclosed in the financial statements:

- RPI increase 3.20%
- CPI increase 2.80%
- Salary increase 3.80%
- Pension increase 2.80%
- Discount rate 2.00%
- Mortality: Current pensioners - male 21.6 years and female 23.6 years /

future pensioners - male 22.9 years and female 25.1 years

- Commutation: pre-April 2008 - 50% / post-April 2008 - 50%

We consider these assumptions to be appropriate for the purposes of estimating the pension liability in accordance with the Code and IAS 19 and IAS 26.

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Litigation and claims

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been accounted for and disclosed in accordance with the requirements of accounting standards.

Confirmation

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director and member has taken all the steps that they ought to have taken as a director or member of the Council in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Nicole Wood
Executive Director, Corporate Services

Date:

Cllr Anthony Michael Hedley
Chair of the Audit, Governance and Standards Committee

Date:

AUDIT QUALITY

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BDO is totally committed to audit quality

It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections.

BDO welcomes feedback from external bodies and is committed to implementing a necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years.

We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our Transparency Report at www.bdo.co.uk

FOR MORE INFORMATION:

David Eagles, Partner

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e: David.Eagles@bdo.co.uk

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 audited body 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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Agenda item 11
AGS/12/22

Report title: Draft 2020/21 Audit Completion Report for Essex County Council	
Report to Audit, Governance and Standards Committee	
Report author: Nicole Wood, Executive Director, Corporate Services	
Date of meeting: 21 March 2022	**For**: Noting
Enquiries to Nicole Wood, Executive Director, Corporate Services **email** nicole.wood@essex.gov.uk or Christine Golding, Chief Accountant **email** christine.golding@essex.gov.uk	
Divisions affected: All Essex	

1. Purpose of report

1.1 The purpose of this report is to present BDO's Draft 2020/21 Audit Completion Report for the Council, as appended.

2. Recommendations

2.1 None – the report is for information only.

3. Background and proposals

3.1 The responsibilities of auditors are derived from statute, principally the Local Audit and Accountability Act 2014, and the National Audit Office (NAO) Code of Audit Practice 2020.

3.2 The NAO Code of Audit Practice requires BDO to report to those charged with governance – the Audit, Governance and Standards Committee – on the work they have carried out to discharge their statutory audit responsibilities.

3.3 The attached report summarises the results of completing the planned audit approach, and the specific audit findings. However, the report is marked as 'draft' because of a residual issue relating to the carrying value of infrastructure assets. BDO cannot finalise the audit until this matter is resolved. This is a national issue impacting on all highway authorities.

3.4 BDO welcome the opportunity to discuss this report with the Committee.

4. Policy context and Outcomes Framework

4.1 The Audit Completion Report provides a summary of the findings from BDO's audit work on the financial statements of Essex County Council.

4.2 The Statement of Accounts provides a financial representation of activities against the Organisation Strategy.

5. Financial Implications

5.1 The Audit Completion Report sets out the fees payable by the Council in relation to the 2020/21 audit. The fees may be higher than reported though, because BDO are not yet able to quantify the additional fees payable in relation to the new Use of Resources approach.

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

9.1 Draft 2020/21 Audit Completion Report for Essex County Council.

10. List of Background Papers

10.1 None

Report to the Audit, Governance and Standards Committee

ESSEX COUNTY COUNCIL

DRAFT Audit Completion Report: year ended 31 March 2021

IDEAS | PEOPLE | TRUST

BDO

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WELCOME

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We have pleasure in presenting our Audit Completion Report to the Audit, Governance and Standards Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance. This report is marked as "draft" because of a residual, ongoing issue relating to infrastructure assets which has been raised, and is being addressed, at a national level.

It summarises the results of completing the planned audit approach for the year ended 31 March 2021, specific audit findings and areas requiring further discussion and/or the attention of the Audit, Governance and Standards Committee. It is essential that we engage with the Audit, Governance and Standards Committee on the results of our audit of the financial statements comprising: audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We look forward to discussing these matters with you at the Audit, Governance and Standards Committee meeting and to receiving your input.

In the meantime if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

We would also like to take this opportunity to thank the management and staff of the Council for the co-operation and assistance provided during the audit.

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

10 March 2022

David Eagles
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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. This report has been prepared solely for the use of the Audit, Governance and Standards 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 audit matters that we believe are important to the Audit, Governance and Standards Committee in reviewing the results of the audit of the financial statements of the Group for the year ended 31 March 2021.

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

Overview

At the date of issuing this Report, our audit work on the financial statements is substantially complete but our internal quality control reviews are ongoing.

Outstanding matters are listed on page 39 in the appendices.

We presented our Audit Planning Report to the Audit, Governance and Standards Committee in March 2021. There have been no significant changes to the planned audit approach and no additional significant audit risks have been identified.

Our work on the Council's value for money arrangements remains in progress. We will report the results of our work in our Auditor's Annual Report, which we are required to issue no later than three months after the date of our audit opinion.

No restrictions were placed on our work. However, there is an ongoing, and now national, issue relating to the carrying value of, and accounting for, infrastructure assets where we may not be able to undertake sufficient work. This is referred to on pages 6 and 15.

Audit report

With a caveat relating to the conclusion of the infrastructure issue, we would otherwise anticipate issuing an unmodified audit opinion on the consolidated Group financial statements and the Council's single entity financial statements as set out on page 27.

We have no exceptions to report at this stage in respect of the Council's value for money arrangements.

Our audit certificate will be issued when we have completed our work on the Council's value for money arrangements and its Whole of Government Accounts submission.

THE NUMBERS

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Final materiality

Group materiality was determined based on gross expenditure.

Changes were made to planning materiality to reflect actual gross expenditure recognised in the statement of accounts presented for audit. The percentage threshold applied remained at 1.75%.

It should be noted that group materiality was set at the same percentage threshold as that for the single entity (i.e. the Council). The monetary threshold (£38.4m) is almost identical, reflecting the limited impact the consolidation of Essex Cares Ltd and Essex Housing Development LLP has on gross expenditure once inter company transactions are eliminated on consolidation, but has been set marginally higher than for the single entity.

Material misstatements

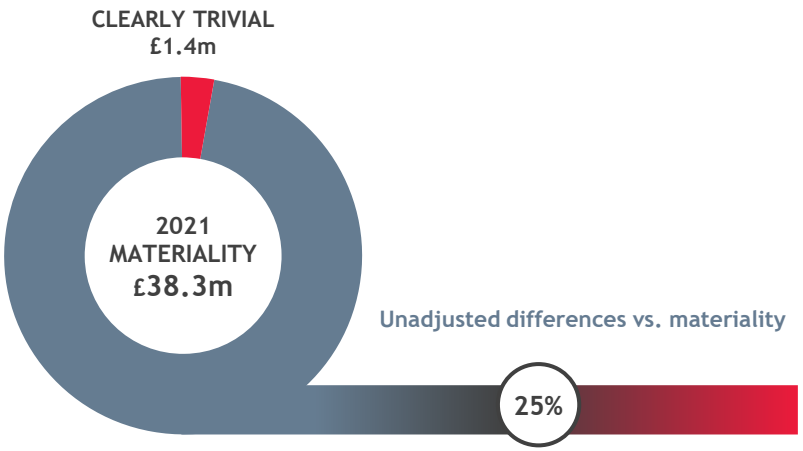
Subject to completion of the outstanding matters on page 39, our work has not identified any material misstatements.

Unadjusted audit differences

We identified one audit adjustment that, if posted, would increase the surplus on the provision of services for the year by £9.724 million. Further details are included on page 17.

Audit scope

Our approach was designed to ensure we obtained the required level of assurance across the components of the group in accordance with ISA (UK) 600 (Audits of Group Financial Statements). This objective has been achieved.



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Financial reporting

- At the time of writing, the audit team is working with the Council and liaising with the wider local government audit sector to resolve a query regarding the carrying value of infrastructure assets (see also page 15).
- Subject to the outcome of the above, we have not identified any other non-compliance with Group accounting policies or the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
- No significant accounting policy changes have been identified impacting the current year
- Going concern disclosures are deemed sufficient
- The Narrative Report is consistent with the financial statements and our knowledge acquired in the course of the audit.
- The Annual Governance Statement complies with relevant guidance and is not inconsistent or misleading with other information we are aware of.

Other matters that require discussion or confirmation

- Control deficiencies identified in relation to IT general controls, including:
  - Proactive monitoring of login activities performed by privileged users
  - Administration level access granted to individual whose job role did not require it
  - Absence of database monitoring in the social care finance application
- Confirmation on fraud, contingent liabilities and subsequent events
- Letter of representation

Independence

We confirm that the firm and its partners and staff involved in the audit remain independent of the Council and the Group in accordance with the Financial Reporting Council's (FRC's) Ethical Standard.

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AUDIT RISKS OVERVIEW

As identified in our Audit Planning Report dated 10 March 2021 we assessed the following matters as being the most significant risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the engagement team.

Audit Risk	Risk Rating	Significant Management Judgement Involved	Use of Experts Required	Error Identified	Control Findings to be reported	Discussion points / Letter of Representation
Management override of controls	Significant	Yes	No	No	No	Yes
Revenue recognition	Significant	Yes	No	No	No	No
Expenditure cut-off	Significant	No	No	No	No	No
Valuation of land, buildings and investment properties	Significant	Yes	Yes	No	No	Yes
Valuation of pension liability	Significant	Yes	Yes	No	No	Yes
Waste treatment plant PFI	Significant	Yes	No	No	No	Yes

Areas requiring your attention

As described on page 6, the audit team is working with the Council and liaising with the wider local government audit sector to resolve a query regarding the carrying value of infrastructure assets. Further details are included on page 15.

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MANAGEMENT OVERRIDE OF CONTROLS

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

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	■

Risk description

Management has the ability to manipulate accounting records and override controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.

Work performed

We carried out the following planned audit procedures:

- Reviewed and verified journal entries made in the year, agreeing the journals to supporting documentation; determined key risk characteristics to filter the population of journals; and used our IT team to assist with the journal extraction
- Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias
- Reviewed unadjusted audit differences for indications of bias or deliberate misstatement.

Results

Our audit procedures on journal entries are substantially complete and we have no matters to report.

Our review of estimates and judgements applied by management, focused on bias, is complete and we have no matters to report.

Our review of the unadjusted audit differences reported on page 17 and 18 has not identified any indication of bias or deliberate misstatement.

Discussion and conclusion

Our audit work has not identified any issues.

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REVENUE RECOGNITION

Auditing standards presume that income recognition presents a fraud risk.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

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.

Work performed

We carried out the following planned audit procedures:

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

Results

Our audit procedures relating to grant income subject to specific conditions are complete. We have no matters to report.

Discussion and conclusion

Our audit work did not identify any issues.

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EXPENDITURE CUT OFF

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

Significant risk	■
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

For net-spending bodies in the public sector, there is a 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.

Work performed

We carried out the following planned audit procedures:

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

Results

Our audit procedures relating to expenditure occurring round the year end are complete. We have no matters to report.

Discussion and conclusion

Our audit work did not identify any issues.

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VALUATION OF LAND, BUILDINGS AND INVESTMENT PROPERTIES

The valuation of land, buildings and investment properties is a significant risk as it involves a high degree of estimation uncertainty.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	■

Risk description

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.

Work performed

We carried out the following planned audit procedures:

- Reviewed the instructions provided to the valuer and the valuer's skills and expertise in order to determine if we could 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 appeared unusual; and
- Confirmed that assets not specifically valued in the year have been assessed to ensure their reported values remained materially correct.

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VALUATION OF LAND, BUILDINGS AND INVESTMENT PROPERTIES

The valuation of land, buildings and investment properties is a significant risk as it involves a high degree of estimation uncertainty.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	■

Results

Our audit procedures relating to the valuation of land, buildings and investment properties is complete.

The instructions provided to the valuer were consistent with our expectations and we concluded that we were able to rely on the management expert.

The basis of valuation for assets valued in the year was appropriate. We have no matters to report regarding inputs into the valuations.

We confirmed that the assumptions used by the valuer were consistent with our expectations.

Where valuation movements for individual properties were outside of our expected range, we reviewed property specific inputs to confirm that the valuation movement was supported and, where appropriate, corroborated these inputs to supporting evidence.

We have confirmed that the Council undertook a review of properties not captured by the in year valuation programme and, where appropriate, applied indexation to ensure values reported at the balance sheet date are materially correct.

Discussion and conclusion

Our audit work did not identify any issues.

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VALUATION OF PENSION LIABILITY

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

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	■

Risk description

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.

Work performed

We carried out the following planned audit procedures:

- 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;
- Contacted the pension fund auditor and requested confirmation of the controls in place for providing accurate membership data to the actuary and testing of that data; and
- Checked that any significant changes in membership data has been communicated to the actuary.

Results

Our audit procedures on the valuation of the pension liability are complete and we have no matters to report.

The disclosures in the financial statements agree to the information provided by the pension fund actuary. We concluded that we were able to rely on the management expert.

We have reviewed the reasonableness of the assumptions used by the actuary in the calculations and have no matters to report.

We have reviewed the controls in place for providing accurate membership data to the actuary and have no matters to report.

Discussion and conclusion

Our audit work did not identify any issues.

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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.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	■

Risk description

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.

Work performed

We carried out the following planned audit procedures:

- Confirmed 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
- Considered the basis for any judgements made by management in determining the treatment of the assets and liabilities associated with the arrangement.

Results

In the prior year, as reported in our 2019/20 completion report, we concluded that the Council's accounting treatment of the arrangement was consistent with the terms set out in the contract and the requirements of CIPFA's Code of Practice on Local Authority Accounting.

Our procedures have not identified any matters which are indicative of the need to amend the accounting treatment applied in previous years. We have reviewed the disclosures made in respect of contingencies and have concluded that they are not inappropriate.

We have held discussions with the Council's legal team and at the time of writing we have not identified any issues which impact the above assessment.

Discussion and conclusion

Our audit work has not identified any issues.

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The following are other matters arising during the audit which we want to bring to your attention.

Issue	Comment
At the time of writing, the audit team are working with the Council and liaising with the wider local government audit sector to resolve a query regarding the carrying value of infrastructure assets.	In common with, as far as we have been able to ascertain, all other infrastructure holding councils, Essex records, and holds records on, spend on infrastructure on a project basis rather than at a granular separable asset or specific location basis. This position means that when assets are replaced/ refurbished and/or wholly taken out of use, it is not possible to identify the relevant cost or accumulated depreciation of the assets that should be de-recognised. Consequently, gross cost and gross depreciation will be overstated, and this is expected to be material. Further, if assets are replaced sooner than their estimated useful economic lives, then there would be a residual net book value impact. This exposure could be material (i.e. infrastructure assets shown in the balance sheet could be materially overstated). For context, Note 15.2 of the Accounts shows for infrastructure assets gross cost of £1.73bn, accumulated depreciation of £499m and a net book value of £1.23bn.
Presentation of income on the face of the Comprehensive Income and Expenditure Statement (CIES).	The face of the CIES presents income from the provision of services in two columns; “Government Grants” and “Other income”. Whilst this presentation facilitates the reconciliation of the two types of income to other areas of the Statement of Accounts, management should consider the addition of a total income column to aid comparability with statements of accounts prepared by other local authorities.

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MATTERS REQUIRING ADDITIONAL CONSIDERATION

Fraud

Whilst the Council's officers 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 procedures did not identify any fraud. We will seek confirmation from you whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the Audit Planning Report on 22 March 2021.

Laws and regulations

The most significant considerations for your organisation are the:

- Local Government Acts of 1972 and 2003
- Local Government Finance Acts of 1988, 1992 and 2012
- Local Audit and Accountability Act 2014
- Accounts and Audit Regulations 2015
- VAT legislation
- PAYE legislation.

We did not identify any non-compliance with laws and regulations that could have a material impact on the financial statements.

Internal audit

We reviewed the audit work of the Council's internal audit function to assist our risk scoping at the planning stage.

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.

We did not identify any significant matters in connection with related parties.

UNADJUSTED AUDIT DIFFERENCES: SUMMARY

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We are required to bring to your attention unadjusted differences and we request that you correct them.

There is one unadjusted audit difference identified by our audit work which would increase the surplus on the provision of services for the year of £33 million by £9.724 million. There is no impact on net assets as at 31 March 2021 and therefore no impact on general fund balance.

This is a projected misstatement, based on the extrapolation of an error identified in our expenditure sample. Our testing identified that a sample item with a value of £617 related to 2019/20 but had not been accrued for, resulting in the expenditure being incorrectly included in 2020/21.

In the prior year, we reported an unadjusted projected misstatement of £2.195 million, of which £2.025 million arose following comparison of estimates made by the Council when preparing the 2019/20 accounts to the supplier invoice subsequently received (the actual value of differences identified from the sample selected was £78,814). This resulted in a projected overstatement of expenditure in the prior year.

When the above unadjusted misstatement is combined with the brought forward error from the previous year, the net impact is an increase in the surplus on the provision of services of £7.529 million.

You consider the unadjusted audit differences to be immaterial in the context of the financial statements as a whole.

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UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

		Income and expenditure		Balance Sheet	
Unadjusted audit differences	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Surplus on the provision of services for the year before adjustments	(33,001)				
1: Impact of brought forward unadjusted error					
DR Expenditure	2,195	2,195			
CR Short term creditors balance as at 1 April 2020					(2,195)
2: Projected overstatement of expenditure due to absence of accrual of 2019/20 costs					
DR General fund balance as at 1 April 2020				9,724	
CR Expenditure	(9,724)		(9,724)		
Total unadjusted audit differences	**(7,529)**	**2,195**	**(9,724)**	**9,724**	**(2,195)**
Surplus on the provision of services for the year if above issues adjusted	(40,530)				

Further details relating to the impact of the brought forward adjustment of £2.195 million are included in our 2019-20 Audit Completion Report. This adjustment only affects the opening balance of short term creditors at 1 April 2020 and has no impact on the value on the short term creditors balance as at 31 March 2021. However, this adjustment affects the value of expenditure on services recognised in the Comprehensive Income and Expenditure Statement (the overstatement of the opening creditors balance means that expenditure on services is understated by the same amount).

In our 2019/20 audit completion report, we reported an understatement relating to the value of specialised asset carrying values. The value reported in 2019/20 included an element of sensitivity to give a maximum estimated understatement. Removing the sensitivity element of the reported misstatement gives an understatement of £5.293 million. This affects the opening land and building balances and associated revaluation reserve balances at 1 April 2020 only. As there is no impact on balances at 31 March 2021, this prior year unadjusted audit difference has not been included in the table above.

ADJUSTED AUDIT DIFFERENCES: SUMMARY

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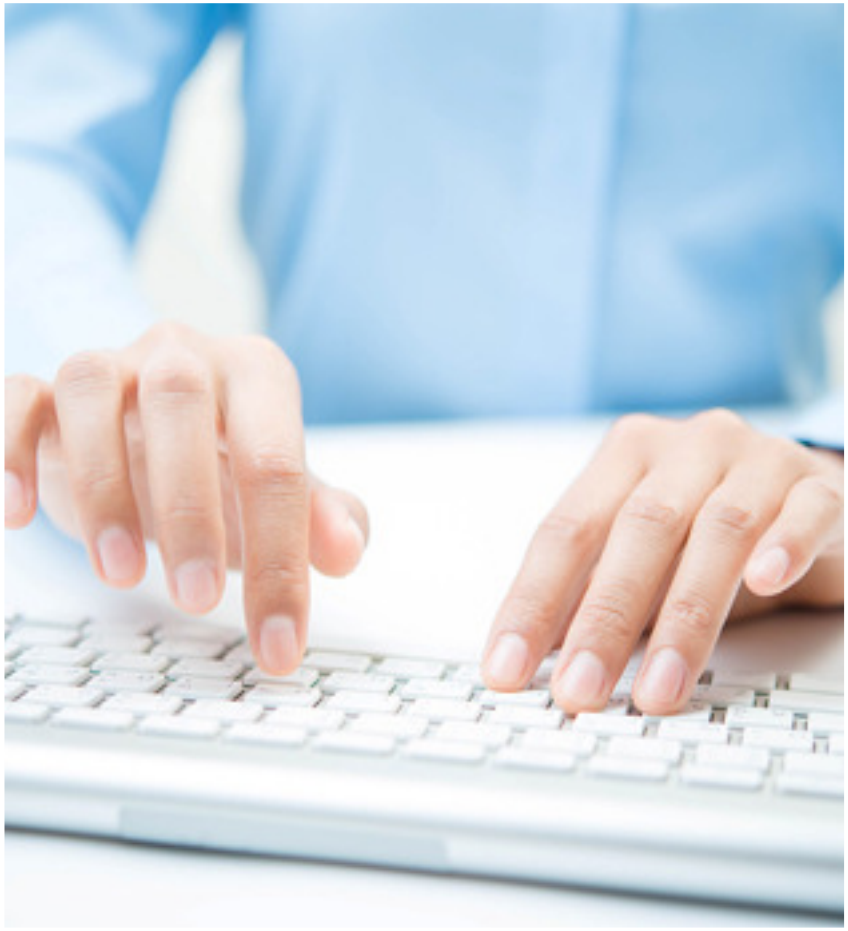

There were two audit differences identified by our audit work that were adjusted by management. These affected classification in the top half of the balance sheet only and there was no impact on the surplus on the provision of services or the general fund balance.

The first difference relates to the inclusion of external body invoices (ie those relating to entities where the Council acts as an administering authority and processes transactions on behalf of those entities) which were unpaid at 31 March 2021 being included in debtors in error. This resulted in the overstatement of the creditor raised for cash held by the Council on behalf of the external bodies. Short term debtors and creditors were both overstated by £7.168 million.

The second audit difference relates to the misclassification of a long term grant receipt in advance as short term. Long term grants received in advance were understated by £3 million and short term grants received in advance are overstated by the same amount.

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ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Income and expenditure			Balance Sheet	
Adjusted audit differences	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Surplus on the provision of services for the year before adjustments	(33,031)				
Adjustment 1: External body invoices incorrectly included in debtors control account at year end					
DR Creditors				7,168	
CR Debtors					(7,168)
Adjustment 2: Reclassification of capital grant receipt in advance from short term to long term					
DR Capital grants received in advance – short term				3,000	
CR Capital grants received in advance – long term					(3,000)
Total Adjusted audit differences					
Adjusted surplus on the provision of services for the year	(33,031)			10,168	(10,168)

The above adjustments have no impact on the general fund balance.

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REPORTING ON OTHER INFORMATION

We comment below on other reporting required to be considered in arriving at the final content of our audit report:

Matter	Comment
We are required to report on whether the financial and non-financial information in the Narrative Report within the Statement of Accounts is consistent with the financial statements and the knowledge acquired by us in the course of our audit.	We are satisfied that the other information in the Narrative Report is consistent with the financial statements and our knowledge.
We are required to report by exception if the Annual Governance Statement is inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Council's review of effectiveness and our knowledge of the Council.	We have no matters to report in relation to the consistency of the Annual Governance Statement with the financial statements and our knowledge.

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The Council is required to prepare a Data Collection Tool (DCT) return for use by the Department for Levelling Up, Housing and Communities (DLUHC) for the consolidation of local government accounts, and by HM Treasury at Whole of Government Accounts level.

Auditors are required to review Whole of Government Accounts (WGA) information prepared by component bodies that are over a prescribed threshold in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure.

The OSCAR II system for submission of the 2020/21 WGA DCT is not yet available for local authorities to complete and HM Treasury has not yet confirmed the thresholds or timetable for audit review. The Group Audit Instructions, which include the required programme of work for auditors, have therefore not yet been issued.

In the prior year, the threshold was £500 million and we were therefore required to perform tests on the DCT. This work included checking the consistency of the DCT return with the audited financial statements, and reviewing the consistency of income and expenditure transactions and receivables and payable balances with other government bodies.

We will update the Audit, Governance and Standards Committee on this issue when further information is available.

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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.

Risk of Significant Weakness

Our value for money work remains in progress. We have no exceptions to report at this stage in respect of the Council's value for money arrangements, and this position will be reflected in the opinion to be issued with the Statement of Accounts.

We will report the results of our work in our Auditor's Annual Report, which we are required to issue no later than three months after the date of our audit opinion.

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OTHER DEFICIENCIES

As the purpose of the audit is for us to express an opinion on the Council's financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

Area	Observation & implication	Recommendation	Management response
IT general controls	There has not been any proactive monitoring of the login activities performed by privileged users. There is an inherent risk that without independent monitoring, the appropriateness of system administrative activity is dependent on the motivation of the individual. There is a greater risk that unauthorised transaction activity is performed and not detected.	Implement audit logging that records activity performed by administrative accounts at application and database level. Administrator activity should be independently monitored, investigated as appropriate and formally signed off by an independent reviewer.	The Council agrees that it is best practice to have proactive, independent monitoring in place for each of its key finance systems. It has subsequently implemented this for one of its key systems and is investigating the feasibility of it for the remainder.
IT general controls	Upon review of the privileged accounts for Oracle, we identified one individual in the Council with administration level access when their job role (which involved processing and monitoring of transactions) did not require it. There is an inherent segregation of duties risk when an individual has administrative access rights to a system as well as a transaction processing / monitoring role on that system.	Assign administrative privileges to an independent individual with no transaction processing or monitoring role.	The Council agrees that no user should have both administrative and transactional level access and has accordingly removed the administrator access from the identified individual. User permissions have been reviewed as part of the implementation of My Oracle, and will be kept under review on an ongoing basis.

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OTHER DEFICIENCIES 2

Area	Observation & implication	Recommendation	Management response
IT general controls	Upon review of the underlying database of A4W, we noted that there is no database auditing enabled. There is a risk that actions are not appropriately being recorded and reviewed, which may lead unauthorised changes to database settings or data.	Enable the auditing parameter within the SQL database. There should be active monitoring or periodic reviews performed of key information that has been logged to assess any unusual/unauthorised activity.	The decision was taken not to enable auditing on the A4W database due to performance issues. By way of assurance though, only the 3 database administrators who currently work for ECC have access to the A4W database. Our current live project is to upgrade and re-host A4W (with the supplier Servelec). As part of this project we will investigate whether it is possible to enable auditing without degrading the system performance. The Council agrees that it is best practice to enable database auditing.

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Opinion on financial statements

With a caveat relating to the conclusion of the infrastructure issue, we anticipate issuing an unmodified opinion on the Group and the Council financial statements.

Conclusion relating to going concern

We have nothing to report in respect of the applicability of the going concern basis of accounting or the Group's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements.

There are no material uncertainties in relation to going concern disclosed in the financial statements of which we are aware that we need to draw attention to in our report.

Irregularities, including fraud

Our report will explain to what extent the audit was considered capable of detecting irregularities, including fraud. Irregularities in this context means non-compliance with laws or regulations.

Other information

We have not identified any material misstatements that would need to be referred to in our report.

Annual Governance Statement

We have no matters to report in relation to the Annual Governance Statement as it is not inconsistent or misleading with other information we are aware of.

Use of resources

We have no matters to report at this stage in relation to the Council's value for money arrangements.

We have not yet completed our work on the Council's value for money arrangements. We will report a commentary on value for money arrangements in our Auditor's Annual Report and include exception reporting in respect of any identified significant weaknesses in our audit certificate.

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

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 Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners 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 ended 31 March 2021.

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 on the following page and were provided in our Audit Planning Report. We understand that the provision of these services was approved by the Audit, Governance and Standards Committee in advance in accordance with the Council's policy on this matter.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Planning Report.

We have not identified any relationships or threats that may reasonably be thought to bear on our objectivity and independence.

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 or the IESBA Code of Ethics as appropriate and are independent of the Council and the Group.

We also confirm that we have obtained confirmation of independence from non BDO auditors and 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.

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Fees summary	2020/21 Planned £	2019/20 Actual £
Audit fee		
• Code audit fee: consolidated Group and single-entity financial statements and use of resources (for 2019/20) [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 Code audit fee	**TBC**	**137,420**
Fees for reporting on government grants:		
• Teachers' pensions return	12,250	12,000
Total fees	**TBC**	**149,420**

[1] The 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.

[2] **Covid-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.

[3] **Use of Resources approach**

There is no prior period baseline to accurately quantify fees for this work because the approach, including reporting requirements, for 2020/21 has changed.

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RESTORING TRUST IN AUDIT AND CORPORATE GOVERNANCE

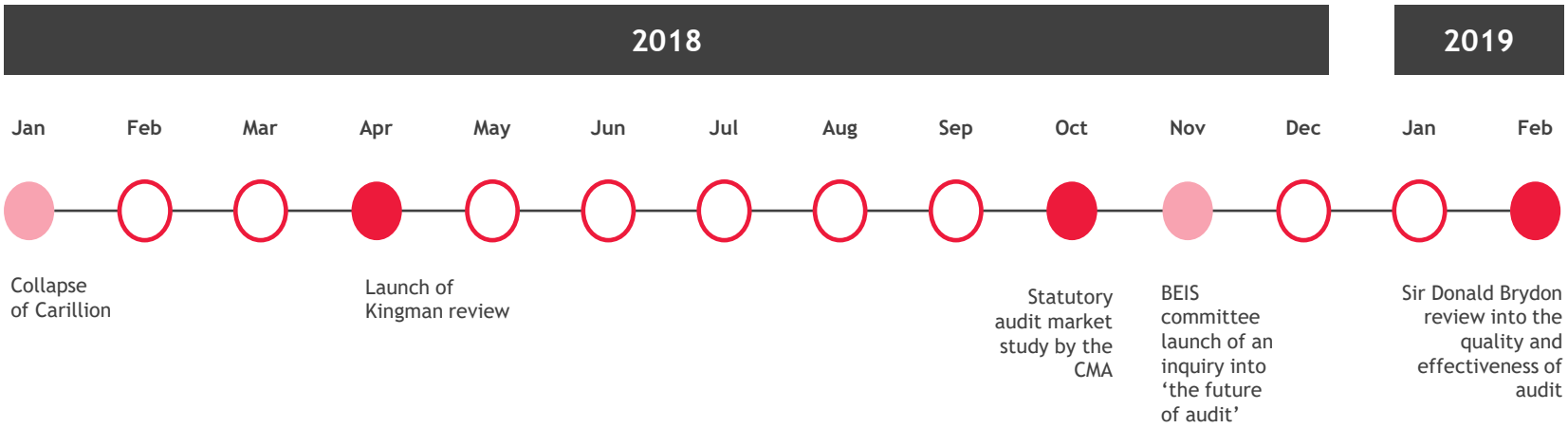
BEIS consultation issued March 2021

The collapse of Carillion at the beginning of 2018 precipitated a root and branch review of how the audit market works with three main components, all reporting to the Secretary of State for Business Energy and Industrial Strategy. The latest BEIS consultation as published in March 21 outlines proposals to increase choice and quality in the audit market, establish clearer responsibilities for the detection and prevention of fraud, and ensure the audit product and audit profession are fit for the future. The consultation aims to present measures that balance the need for meaningful reform with proportionate impacts on business, both now and for the future. The next pages aim to summarise the key areas of the consultation but for more information please refer to the consultation directly.

Although the consultation is only closed in July 2021, changes have already begun: There are already a number of changes being made by the market participants themselves such as increased operational separation of audit from consulting and voluntary restriction of non-audit services. At BDO we support the aims of operational separation of audit practices. Without being complacent we do not have a large consulting practice like some of our rivals and we have always run our audit business to be independently and sustainably profitable, therefore the main causes of concern that this seeks to address namely cultural contamination and cross subsidisation are less relevant for us. We do however recognise that the profession needs to restore the confidence of users and operational separation or ring fencing is an important step on that journey. We have drawn up plans for how we would implement this and are currently consulting with stakeholders. Whilst full compliance is not required until 2024 we are likely to implement a number of aspects particularly around governance and financial transparency by July 2021.

Whilst there is some uncertainty regarding the timeline post the close of the consultation it is our understanding that the implementation of the Audit, Reporting and Governance Authority (ARGA) is likely to be in 2023.

HISTORIC CONSULTATIONS TIMELINE



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BEIS CONSULTATION AT A GLANCE

Issued March 21

Key Area of the BEIS consultation	Summary
1. Resetting the scope of regulation by expanding the definition of Public Interest Entities to include large private companies and "large" AIM quoted companies.	The government proposes two possible tests to extend the scope of PIES: To adopt the test used to identify companies already required to include a corporate Annual Governance Statement in their directors' report, or adopt a narrower test which incorporates the threshold for additional non-financial reporting requirements for existing PIEs. This would cover companies with both: Over 500 employees and a turnover of more than £500 million as their consolidated position. The Government is also proposing that any new definition of PIE should also include companies on the exchange-regulated AIM market with market capitalisations above €200m.
2. Increasing the accountability of directors	The consultation sets out a couple of options relating to directors accountability for internal controls and then indicates a tentative preferred option which would require a directors' statement about the effectiveness of the internal controls. Unlike the US's approach to internal controls which mandates external auditor attestation in most cases this option would leave the decision on whether the statement should be assured by an external auditor to the directors, audit committee and shareholders. This section of the consultation also includes proposals to require companies to report on their distributable reserves and for directors to be required to make a formal statement about the legality and affordability of proposed dividends.
3. New corporate reporting requirements	Introducing a requirement for PIEs to produce an annual Resilience Statement. This new statement consolidates and builds upon the existing going concern and viability statements and would apply initially to Premium Listed companies. Introducing an Audit and Assurance Policy where directors have to describe their approach to seeking assurance. For publicly quoted entities, this would be subject to an advisory shareholder vote at the time of its publication,
4. Strengthening the supervision of corporate reporting	Giving the Audit, Reporting and Governance Authority (ARGA) (which replaces the Financial Reporting Council) more power to direct changes to company reports and accounts. Creating increased transparency for the Corporate Reporting Review (CRR) process and an extension of the CRR process to the whole of the annual report and accounts. The Government proposes to broaden the regulator's review powers so that it can scrutinise the entire contents of a company's Annual Report and Accounts.

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BEIS CONSULTATION AT A GLANCE 2

Key Area of the BEIS consultation	Summary
5. Provisions concerning company directors	Giving the regulator investigation and enforcement powers in relation to wrongdoing by all directors of Public Interest Entities. Due to the principles of collective responsibility and a unitary board, all directors of Public Interest Entities would be in scope. Strengthening malus and clawback provisions within executive director remuneration.
6. Changes to audit purpose and scope	The Government will seek to introduce a regulatory framework to cover both audits of financial statements (statutory audit) and other types of information which companies decide to have audited through the Audit and Assurance Policy process. It also proposes to legislate to require directors of Public Interest Entities to report on the steps they have taken to prevent and detect material fraud.
7. Changes to audit committee oversight and engagement with shareholders	ARGA to establish a standards and supervision regime. ARGA will write the standards by which Audit Committees will need to operate and they will monitor compliance against these standards. Initially this will only apply to FTSE 350 Audit Committees. Additional requirements for audit committees in the appointment and oversight of auditors, which is intended to ensure the committee acts effectively as an independent body responsible for safeguarding the interests of shareholders. Increased engagement between a company and its shareholders. The Government agrees with Brydon's recommendation that the audit committee's annual report should set out which shareholder suggestions put forward for consideration had been accepted or rejected by the auditor.
8. Improved competition, choice and resilience in the audit market	The implementation of a managed shared audit regime for companies audited by the Big Four. The operational separation of certain accountancy firms. Statutory powers for the regulator to monitor the resilience of the audit market.
9. Greater supervision of audit quality	Making the regulator responsible for approving the auditors of PIEs and improving the transparency of Audit Quality Review reports by allowing AQR reports on individual audits to be published without consent.
10. A new and strengthened regulator; the Audit, Reporting and Governance Authority	The regulator will be given the power to make rules requiring market participants to pay a levy to meet the regulator's costs of carrying out its regulatory functions.
11. Additional changes to the regulator's responsibilities	The regulator will have the power to require an expert review where it has identified significant concern regarding a PIEs corporate reporting and auditing.

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FRC ETHICAL STANDARD

Issued in December 2019

In December 2019 the FRC published the Revised Ethical Standard 2019 ('ES'), which is applicable from 15 March 2020. There are some transitionary 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.

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.
Extra-territorial impact	For group audits where the audited entity has overseas operations, the ES will require all BDO Member firms to be independent of the UK audited entity and its UK and overseas affiliates in accordance with the UK Ethical Standard, irrespective of if their audit work is relied upon.
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.
Non-audit services to a public interest entity (PIE)	Moving to a "white-list" of permitted non-audit services for PIEs. The white-list largely consists of services which are either audit-related or required by law and/or regulation. The provision of services not on the white-list are prohibited. The ES separates those permitted services which are exempt from the 70% fee cap and those services which are subject to the fee cap.
Other entities of public interest ('OEPI')	OEPI is a new term in the Ethical Standard. The FRC have imposed the 'white-list' applicable to PIE audited entities to also apply to OEPIs. OEPIs are entities which, according to the FRC, do not meet the definition of a PIE but nevertheless are of significant public interest to stakeholders. They include AIM listed entities which exceed the threshold to be an *SME listed entity* - generally those with a market cap of more than €200m; Lloyd's syndicates; Private sector pension schemes with more than 10,000 members and more than £1billion of assets; Entities that are subject to the governance requirements of The Companies (Miscellaneous Reporting) Regulations 2018 (SI/2018/860), excluding fund management entities which are included within a private equity or venture capital limited partnership fund structure. These would be entities which: – Have more than 2000 employees; and / or – Have a turnover of more than £200 million and a balance sheet total of more than £2 billion. The FRC have noted that the rules applicable to OEPIs will apply from periods commencing on or after 15 December 2020.

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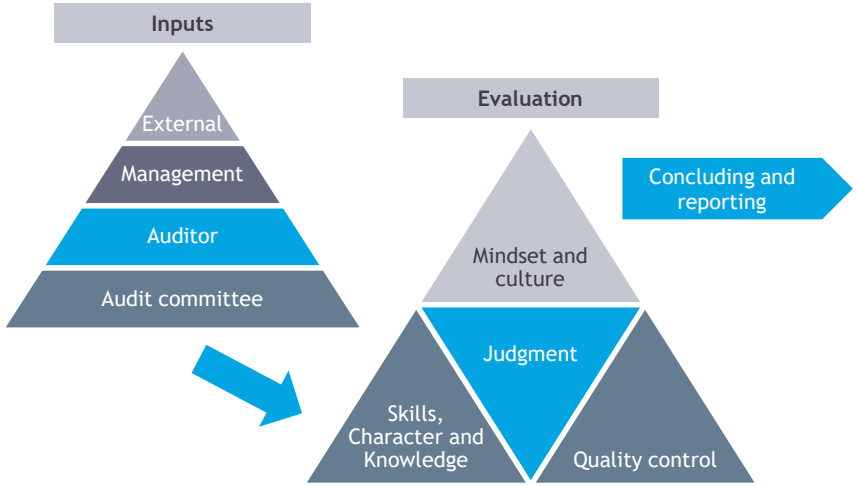
FRC PRACTICE AID FOR AUDIT COMMITTEES

The Financial Reporting Council (FRC) issued an updated practice aid for audit committees in December 2019 and a full copy can be found on the FRC website. In their practice aid the FRC note: 'The directors of a company (the Board as a whole) are responsible for ensuring its financial statements are prepared in accordance with the applicable financial reporting framework and for overseeing the company's internal control framework. A high-quality audit provides investors and other stakeholders with a high level of assurance that the financial statements of an entity give a true and fair view and provide a reliable and trustworthy basis for taking decisions.'

The practice aid then discusses how the role of audit committees in serving the interests of investors and other stakeholders is through their independent oversight of the annual corporate reporting process including the audit. The FRC highlight that the responsibility for appointing the external auditor, approving their remuneration and any non audit services work, ensuring their independence and challenging them over the quality of their work falls to the audit committee and can play a key role in facilitating a high quality audit (see note below).

It gives guidance for Audit Committees in the following areas:

- Audit tenders and the tender process including audit fee negotiations and auditor independence
- A model for use by audit committees in making an overall assessment of an external auditor including inputs, evaluations and concluding



- Transparency - reporting to the Board on how the audit committee has discharged these responsibilities
- Some guidance on key areas of audit judgement

The provision of high quality audits are a key focus of FRC and the new Executive Director of Supervision, David Rule, sent a letter to all audit firms in November 2019 explaining the factors he would expect to see in place in order to facilitate the delivery of high quality audits. A copy of the letter can be found on the FRC website

OUR RESPONSIBILITIES

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Our responsibilities and reporting

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

We read and consider the 'other information' contained in the Statement of Accounts such as the Narrative Report. 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.

We report by exception any significant weaknesses identified by our work on the Council's value for money arrangements and a summary of associated recommendations made.

We review the Whole of Government Accounts Data Collection Tool provided to HM Treasury and express an opinion on whether it is consistent with the audited financial statements.

What we don't report

Our audit is not designed to identify all matters that may be relevant to 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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ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

	Issue	Comments
1	Significant difficulties encountered during the audit.	No exceptions to note.
2	Written representations which we seek.	We enclose a copy of our draft representation letter.
3	Any fraud or suspected fraud issues.	No exceptions to note.
4	Any suspected non-compliance with laws or regulations.	No exceptions to note.
5	Significant matters in connection with related parties.	No exceptions to note.
	Group matters	
6	Limitations on the audit where information was restricted.	No exceptions to note.
8	Any fraud or suspected fraud at group or component level.	No exceptions to note.

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COMMUNICATION WITH YOU

Those Charged with Governance (TCWG)

References in this report to Those Charged With Governance (TCWG) 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 TCWG of the Council and the Group, we consider TCWG 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 have met with management throughout the audit process. We have issued regular updates driving the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

Communication	Date (to be) communicated	To whom
Audit Planning Report	10 March 2021	Audit, Governance and Standards Committee
Audit progress report	27 September 2021	Audit, Governance and Standards Committee
Audit Completion Report	21 March 2022	Audit, Governance and Standards Committee
Auditor's Annual Report	TBC	Audit, Governance and Standards Committee

OUTSTANDING MATTERS

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We are in the process of completing our audit work in respect of the financial statements for the year ended 31 March 2021.

The following matters are outstanding at the date of this Report and could impact our audit opinion. We will update you on their current status at the Audit, Governance and Standards Committee meeting on 21 March 2022 at which this Report is considered:

- Completion of remaining final partner, manager and quality control review of the audit file and clearance of any further review points
- Conclusion of matters relating to infrastructure assets
- 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 (this will need to be refreshed up to the point of issuing the opinion, so is linked to the infrastructure issue timeline)
- Letter of Representation, as attached in Appendix D (draft) to be approved and signed.

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DRAFT LETTER OF REPRESENTATION

BDO LLP
16 The Havens
Ransomes Europark
Ipswich
IP3 9SJ

Dear Sirs

Financial statements of Essex County Council for the year ended 31 March 2021

We confirm that the following representations given to you in connection with your audit of the Group and the Council's financial statements for the year ended 31 March 2021 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council and other Group entities.

The Executive Director, Corporate Services has fulfilled her responsibilities for the preparation and presentation of the Group and the Council financial statements as set out in the Accounts and Audit Regulations 2015 and in particular that the financial statements give a true and fair view of the financial position of the Group and the Council as of 31 March 2021 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Council's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the Annual Governance Statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records of the Council have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of management and other meetings have been made available to you.

Going concern

We have made an assessment of the Group and the Council's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements were approved for release. As a result of our assessment we consider that the Group and the Council is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis.

In making our assessment we did not consider there to be any material uncertainty relating to events or conditions that individually or collectively may cast significant doubt on the Group and the Council's ability to continue as a going concern.

Laws and regulations

In relation to those laws and regulations which provide the legal framework within which the Council's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

Post balance sheet events

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

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DRAFT LETTER OF REPRESENTATION 2

Fraud and error

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

We have disclosed to you all allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

Misstatements

We attach a schedule showing uncorrected misstatements that you have identified, which we acknowledge that you request we correct. Where appropriate we have explained our reasons for not correcting such misstatements below. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements as a whole.

Related party transactions

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

Other than as disclosed in note 37 to the financial statements, there were no loans, transactions or arrangements between any Group entity and Council members or their connected persons at any time in the year which were required to be disclosed.

The disclosures in the financial statements concerning the controlling party of the Council are accurate.

Carrying value and classification of assets and liabilities

We have no plans or intentions that may materially affect the carrying value or classification of assets or liabilities reflected in the consolidated Group and Council financial statements.

Accounting estimates

a) Pension fund assumptions

We confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) liabilities, as applied by the scheme actuary, are reasonable and consistent with our knowledge of the business. These assumptions include:

- RPI increase 3.2%
- CPI increase 2.8%
- Salary increase 3.8%
- Pension increase 2.8%
- Discount rate 2.00%
- Mortality: Current pensioners - male 21.6 years and female 23.6 years / future pensioners - male 22.9 years and female 25.1 years
- Commutation: pre-April 2008 - 50% / post-April 2008 - 50%

We consider these assumptions to be appropriate for the purposes of estimating the pension liability in accordance with the Code and IAS 19.

DRAFT LETTER OF REPRESENTATION 3

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b) Valuation of land and buildings and investment property

We are satisfied that the useful economic lives of land and buildings, and their constituent components, used in the valuation of land and buildings, and the calculation of the depreciation charge for the year, are reasonable.

We confirm that the valuations applied to land and buildings revalued in the year, as provided by the valuer and accounted for in the financial statements, are reasonable and consistent with our knowledge of the business and current market prices.

Litigation and claims

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been accounted for and disclosed in accordance with the requirements of accounting standards.

Confirmation

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director and member has taken all the steps that they ought to have taken as a director or member of the Council in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Nicole Wood
Executive Director, Corporate Services

[Date] 2022

Councillor Anthony Hedley
Chair of the Audit, Governance and Standards Committee

[Date] 2022

AUDIT QUALITY

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BDO is totally committed to audit quality

It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections.

BDO welcomes feedback from external bodies and is committed to implementing a necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years.

We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our Transparency Report at www.bdo.co.uk

FOR MORE INFORMATION:

David Eagles, Partner

m: 07967 203431
e: david.eagles@bdo.co.uk

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 audited body 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.

BDO LLP is a corporate establishment under the Limited Liability Partnership Act 2000 and a UK Member Firm of BDO International. BDO Northern Ireland, a separate partnership, operates under a licence agreement. BDO LLP and BDO Northern Ireland are both separately authorised and regulated by the Financial Conduct Authority to conduct investment business.

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Meeting	Topic	Author	Notes
21 March 2022	**Consideration of Adoption of LGA Model Code of Conduct by Essex County Council**	Paul Turner, Director, Legal and Assurance	
	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	
	Arrangements for the closure of the 2021/2022 Accounts	Nicole Wood, Executive Director, Corporate Services / Christine Golding, Chief Accountant.	

	2020/2021 Audit Completion Report for the Essex Pension Fund	Nicole Wood, Executive Director, Corporate Services	
	DRAFT 2020/21 Audit Completion Report for Essex County Council	To be presented by Nicole Wood, Executive Director, Corporate Services and Christine Golding, Chief Accountant, Essex County Council	
Meeting	**Topic**	**Author**	**Notes**
27 June 2022	**FINAL 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, Corporate Services and Christine Golding, Chief Accountant, Essex County Council	
	Statement of Accounts 2020/2021 and the Annual Governance Statement	Nicole Wood, Executive Director, Corporate Services, Paul Turner, Director, Legal and Assurance, and Christine Golding, Chief Accountant	
	2021/2022 External Audit Plans for Essex County Council and the Essex Pension Fund	Nicole Wood, Executive Director Corporate Services and Christine Golding, Chief Accountant.	

	External Auditor's Annual Letter	BDO LLP – external auditors	
	Disaster Recovery Audit Progress Update	Melanie Hogger, Director of Technology Services	
	Review of Register of Gifts and Hospitality Register	Paul Turner, Director, Legal and Assurance	
	Chief Audit Executive's Annual Report and Opinion	Paula Clowes, Head of Assurance	

Meeting	Topic	Author	Notes
19 September	**Internal Audit and Counter Fraud progress reports**	Paula Clowes, Head of Assurance	

Meeting	Topic	Author	Notes
28 November 2022	**Essex County Council 2021/22 Audit Completion Report**	Nicole Wood, Executive Director, Corporate Services and Christine Golding, Chief Accountant	
	Essex Pension Fund 2021/22 Audit Completion Report	Nicole Wood, Executive Director, Corporate Services and Christine Golding, Chief Accountant	

Approval of 2021/22 Statement of Accounts	Nicole Wood, Executive Director, Corporate Services and Christine Golding, Chief Accountant